ATTACHMENT 1

SBC LECs Cost Support for 1996 Tariff Filing

Ameritech – 1996 Tariff Filing (Transmittal No. 961, filed 4/2/96)

- **Exhibit 13, Pages 1 through 4** – These pages show the change in rate base for the 1992 – 1994 sharing calculations due to the rescission of RAO 20 and the resulting change in rate of return and sharing. These pages are formatted with three columns to clearly display the changes. Column A shows the rate of return and sharing calculation as previously filed with the FCC (in compliance with RAO 20). Column B shows the revised rate of return and sharing calculation reflecting the FCC's rescission of RAO 20. Column C simply shows the difference between the first two columns. The change in the rate base (Column C, row 2) reflects the OPEB liability that was included as a rate base reduction in the original filing but removed from the revised calculation. The remaining rows simply reflect the standard sharing calculation.

- **Revised FCC Forms 492A** – The Form 492A is the standard rate of return monitoring form required by the FCC. The revised Forms 492A were also provided in the 1996 tariff filing to reflect the impacts of the RAO 20 rescission.

Pacific Bell – 1996 Tariff Filing (Transmittal No. 1864, filed 4/2/96)

- **Workpapers IIC-5 and IIC-12** – These pages show the change in rate base for the 1993 – 1994 sharing calculations due to the rescission of RAO 20 and the resulting change in rate of return and sharing. These pages are formatted with two columns to clearly display the changes. Column A shows the rate of return and sharing calculation as previously filed with the FCC (in compliance with RAO 20). Column B shows the revised rate of return and sharing calculation reflecting the FCC's rescission of RAO 20. The difference in sharing between the two calculations is shown on row 11.

Pacific Bell – May 13, 1996 Response to Petitions to Reject, or Suspend and Investigate

- The revised 1994 sharing calculation described above included other minor revisions to the sharing calculation that were not related to the rescission of RAO 20. Therefore to clarify the RAO 20 impact, Pacific filed Appendix A in its May 13, 1996 reply comments which is a schedule showing the change in rate base caused by the removal of the OPEB liability and the resulting change in sharing. This Appendix also shows the calculation of the RAO 20 rescission impact on 1995 sharing. This schedule works as follows:

  Line 1: The total OPEB liability recorded in account 4310.
  Line 2: The jurisdictional separation's factor used to determine the interstate portion of the OPEB liability account.
  Line 3: The interstate portion of the OPEB liability account, which is equal to Line 1 times Line 2.

Line 4: The return on the interstate portion of the OPEB liability account. This is determined by multiplying the interstate portion of the account (line 3) times the 12.25% rate of return sharing threshold determined by the FCC. Earnings above this amount are required to be shared with ratepayers.
Line 5: The tax gross-up factor. A tax gross-up is required to reflect that sharing amounts are tax deductible and will result in a tax benefit for the LEC.
Line 6: The revenue requirement related to the interstate portion of the OPEB liability account determined by multiplying line 4 times line 5.
Line 7: The percent of earnings that exceed the FCC's sharing threshold that is required to be returned to ratepayers.
Line 8: Half-year reduction. Based on what SBC could surmise from the available data, this only impacts the 1995 calculation and reflects a half-year impact of sharing in 1995, due to the change in the productivity factor elected.
Line 9: Same as line 7 or 8.
Line 10: The amount of interest required by the FCC to be added to the sharing amount. This reflects the assumption that the LEC earned returns in excess of the sharing threshold throughout the year and therefore those excess earnings require an interest additive before returning them to ratepayers.
Line 11: Total impact on sharing including interest (Line 9 plus Line 10).

SWBT – 1996 Tariff Filing (Transmittal No. 2544, filed 4/2/96)

- **Figures 2F-2 and 2F-3** – Similar to the supporting schedules described above, these pages show the change in rate base for the 1993 and 1994 sharing calculations due to the rescission of RAO 20 and the resulting change in rate of return and sharing.

- **Revised FCC Form 492A** – The Form 492A is the standard rate of return monitoring form required by the FCC. The revised Form 492A for 1994 was also provided in the 1996 tariff filing to reflect the impacts of RAO 20 rescission.

- **Pages 2-12 and 2-13** of the tariff filing also provide a narrative summary of the adjustments.

Nevada Bell – 1996 Tariff Filing (Transmittal No. 217, filed 4/2/96)

- **Exhibit 8** – This is a schedule showing the 1994 sharing true-up calculation. It reflects the revised rate of return and related sharing amounts and then compares to the original rate of return and sharing. Note 3 on this schedule clearly indicates that the revisions are due to revenue normalization, the finalization of certain studies and ***the rescinding of OPEB ratebase treatment included in RAO 20***. Since this schedule includes the effect of the revision for RAO 20 as well as other minor revisions, Nevada Bell filed a supplemental schedule in its May 13, 1996 comments as described below.

- **Revised FCC Form 492A** – The Form 492A is the standard rate of return monitoring form required by the FCC. The revised Form 492A for 1994 was also provided in the 1996 tariff filing (labeled as Exhibit 8A) to reflect the impacts of the RAO 20 rescission.

Nevada Bell – May 13, 1996 Response to Petitions to Reject, or Suspend and Investigate

- The revised 1994 sharing calculation described above included other minor revisions to the sharing calculation that were not related to the rescission of RAO 20. Therefore to clarify the RAO 20 impact, Nevada Bell filed Attachment 1 in its May 13, 1996 reply comments which is a schedule showing the change in rate base caused by the removal of the OPEB liability and the resulting change in sharing. This Attachment works as follows:

  Line 1: The total OPEB liability on the books.
  Line 2: The jurisdictional separation's factor used to determine the interstate portion of the OPEB liability.
  Line 3: The interstate portion of the OPEB liability account, which is equal to Line 1 times Line 2.
  Line 4: The composite rate of return used to determine the revenue requirement. This composite is the mid-point of the 13.25% sharing benchmark and the 17.25% cap.
  Line 5: This is the amount of sharable earnings before tax-gross up and interest resulting from the RAO 20 rate base reduction.
  Line 6: The tax gross-up factor. A tax gross-up is required to reflect that sharing amounts are tax deductible and will result in a tax benefit for the LEC.
  Line 7: The revenue requirement related to the interstate portion of the OPEB liability account determined by multiplying line 5 times line 6.
  Line 8: The interest rate required to be used to develop the interest additive to the sharing amount.
  Line 9: The interest calculated for the first year determined by multiplying Line 7 by Line 8.
  Line 10: The interest calculated for the second year determined by multiplying Line 7 by Line 8.
  Line 11: The total amount of the reduction to sharing as a result of the FCC's rescission of RAO 20 determined by adding Lines 7, 9 and 10. Since Nevada's rate of return exceeded the cap for 1994, 100% of the sharable earnings above the cap were shared with ratepayers.

EXHIBIT 1

EXHIBIT 13

Ameritech
Exogenous Workpapers
RAO 20
($000)

Calculation of Exogenous Adjustment to incorporate the Commission's Memorandum Opinion and Order and Notice of Proposed Rulemaking in cc Docket No. 96-22: Rate Base Treatment for OPEBs.

1992 Sharing True-Up Amount (See Exhibit 13 page 2 of 4) (Displayed in Col M of EXG-1 Form of TRP)	4,123
1993 Sharing True-Up Amount (See Exhibit 13 page 3 of 4) (Displayed in Col M of EXG-1 Form of TRP)	10,220
1994 Sharing True-Up Amount (See Exhibit 13 page 4 of 4) (Displayed in Col I of EXG-1 Form of TRP)	14,165
Total Exogenous Amount	28,508

Ameritech
Calculation of 1992 Price Cap Sharing True Up Amount
($000)

Data From Form 492A	Source	1992 Final Report A Note 1	1992 Revised Report B Note 2	1992 True-Up Amount C=(B-A)
1 Net Return ($)	FCC Form 492A, Line 3 (1992 Calendar Year)	384,393	384,370	(23)
2. Rate Base (Average Net Investment $)	FCC Form 492A, Line 4 (1992 Calendar Year)	3,005,755	3,037,236	[illegible]1,481
3. Rate of Return	FCC Form 492A, Line 5 (1992 Calendar Year)	12 79%	12.66%	N/A
Sharing Calculation				
A Net Return Subject to Sharing	(Return - .1225 X Rate Base)	16,188	12,309	(3,879)
B [illegible] Earnings	(Line A X 50%)	8,094	6,155	(1,940)
C Tax Gross-Up *	(Line B X .5895)	4,772	3,628	(1,144)
D. Interest at 11 25%	(Line B + Line C) X 11 25%	1,447	1,101	(346)
E. Less Add'l Interest at 11.25% for True-Up	Col C (Line B & Line C) X 11 25% X 2		(694)	(694)
F. Total Price Cap Sharing	Line B + Line C + Line D + Line E	14,313	10,190	(4,123)

- Reflects Ameritech's effective tax rates as follows: Gross Receipts Tax 1.063%
  State Income Tax 3.652%
  Federal Tax Rate 34.0%

Note 1 Col A lines 1 2, and 3 reference Ameritech's 1992 Form 492A, as filed on March 31, 1994
Note2 Col B. lines 1 2 and 3 reference Ameritech's Revised 1992 Form 492A as filed on April 1 1996 which incorporates the Commission's Memorandum Opinion & Order and Notice of Proposed Rulemaking in cc Docket No 96-22

Ameritech

Calculation of 1993 Price Cap Sharing True Up Amount
($000)

Data From Form 492A	Source	1993 Final Report A Note 1	1993 Revised Report B Note 2	1993 True-Up Amount C=(B-A)
1. Net Return ($)	FCC Form 492A, Line 3 (1993 Calendar Year)	443,784	443,588	(196)
2. Rate Base (Average Net Investment $)	FCC Form 492A, Line 4 (1993 Calendar Year)	2,998,024	3,080,745	82,721
3. Rate of Return	FCC Form 492A, Line 5 (1993 Calendar Year)	14.80%	14.40%	N/A
Sharing Calculation				
A. Net Return Subject to Sharing	(Return - .1225 X Rate Base)	76,526	66,197	(10,329)
B. 50% Shared Earnings	(Line A X 50%)	38,263	33,099	(5,165)
C. Tax Gross-Up *	(Line B X .6155)	23,550	20,372	(3,178)
D. Interest at 11.25%	(Line B + Line C) X 11.25%	6,954	6,015	(939)
E. Less Add'l Interest at 11.25% for True-Up	Col C (Line B & Line C) X 11.25%		(939)	(939)
F. Total Price Cap Sharing	Line B + Line C + Line D + Line E	68,767	58,547	(10,220)

- * Reflects Ameritech's effective tax rates as follows: Gross Receipts Tax 1.018%
  State Income Tax 3.789%
  Federal Tax Rate 35.0%

Note 1: Col A lines 1, 2 and 3 reference Ameritech's 1993 Form 492A, as filed on March 31, 1995
Note 2: [illegible] Form 492A, as filed on April 1, 1996 which incorporates the Commission's Memorandum [illegible]

Ameritech

Calculation of 1994 Price Cap Sharing True Up Amount
($000)

Data From Form 492A (Includes Add-Back)	Source	1994 Final Report A Note 1	1994 Revised Report B Note 2	1994 True-Up Amount C=(B-A)
1. Net Return ($)	FCC Form 492A, Line 3 (1994 Calendar Year)	408,091	407,724	(367)
2. Rate Base (Average Net Investment $)	FCC Form 492A, Line 4 (1994 Calendar Year)	2,919,603	3,045,272	125,669
3. Rate of Return	FCC Form 492A, Line 5 (1994 Calendar Year)	13 98%	13 39%	N/A
Sharing Calculation				
A. Net Return Subject to Sharing	(Return - 1225 X Rate Base)	50,440	34,678	(15,762)
B. 50% Shared Earnings	(Line A X 50%)	25,220	17,339	(7,881)
C. Tax Gross Up *	(Line B X .6155)	15,523	10,672	(4,851)
D. Interest at 11 25%	(Line B + Line C) X 11 25%	4,584	3,151	(1,433)
E. Less Add't Interest as 11.25% for True-Up	Col C (Line B & Line C) X 11 25%			
F. Total Price Cap Sharing	Line B + Line C + Line D + Line E	45,327	31,162	(14,165)

* Reflects Ameritech's effective tax rates as follows: Gross Receipts Tax 1.018%
State Income Tax 3 789%
Federal Tax Rate 35 0%

Note 1 Col A, lines 1, 2, and 3 reference Ameritech's 1994 Form 492A, as filed on July 27, 1995

Note2 Col B lines 1, 2 and 3 reference Ameritech's Revised 1994 Form 492A as filed on April 1, 1996 which incorporates the Commission's Memorandum Opinion & Order and Notice of Proposed Rulemaking in cc Docket No 96 22

EXHIBIT 4

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Approved by OMB
3060-0355
Expires 05/31/98

See reverse side for information regarding public burden estimate

1. Name and Address of Reporting Company	2. Reporting Calendar Year
Ameritech Operating Companies Ameritech Services 2000 West Ameritech Center Drive 4G50 Hoffman Estates, Il. 60196	(A) From: 01/01/92 To: 12/31/92 (B) First Report Filed: March 31, 1993 (C) Final Report Filed: March 31, 1994 REVISED April 1, 1996

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT

Read Instructions on the Reverse Before Completing
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Column A	Final Report Column B	Difference Column C = (B - A)
1. Total Revenues	2,096,755	2,096,755	0
2. Total Expenses and Taxes	1,712,362	1,712,385	23
3. Operating Income (Net Return)(Ln1-Ln2)	384,393	384,370	(23)
4. Rate Base (Avg Net Investment)	3,005,755	3,037,236	31,481
5. Rate of Return (Ln3/Ln4)	12.79%	12.66%	
6. Sharing/Low End Adjustment Amount	(9,095)	(9,095)	0
7. FCC Ordered Refund - Amortized for Current Period	N/A	N/A	

REMARKS

See Attached For Comments

CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
il 1, 1996	Robin Gleason	Director-Regulatory Finance	Robin M. Gleason

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A
May 1995

Attachment
FCC 492A

Reporting Company:	Period Covered:
Ameritech Operating Companies	**From:** 01/01/92 **To:** 12/31/92
Ameritech Services	First Report Filed: 03/31/93
2000 West Ameritech Center Dr. 4G50	Final Report Filed: 03/31/94
Hoffman Estates, IL 60196	Revised Filed: 04/01/96

The Sharing/Low End Adjustment Amount displayed on Line 6 equals one-half of the sharing exogenous change for the 1992/1993 tariff year. The amount displayed on Line 6 does not equal the actual rate reductions that occurred due to sharing because the API was below the PCI in some of the Price Cap baskets.

Revenues in the amount of $19.4 million associated with excluded services under Price Cap incentive regulation are excluded from the data reported. Earnings associated with these services were removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

In addition to the above, Column B for Lines 2, 3, 4, and 5 has been adjusted to incorporate the Commission's Memorandum Opinion and Order and Notice of Proposed Rulemaking in cc Docket No. 96-22; Rate Base Treatment for OPEBs.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Approved by OMB
3060-0355
Expires 05/31/98

See reverse side for information regarding public burden estimate

1. Name and Address of Reporting Company	2. Reporting Calendar Year
Ameritech Operating Companies Ameritech Services 2000 West Ameritech Center Drive 4G50 Hoffman Estates, IL 60196	(A) From: 01/01/93 To: 12/31/93 (B) First Report Filed: April 22, 1994 (C) Final Report Filed: March 31, 1995

FCC 492A

REVISED April 1, 1996

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT

Read Instructions on the Reverse Before Completing

Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Column A	Final Report Column B	Difference Column C = (B - A)
1. Total Revenues	2,169,383	2,169,383	0
2. Total Expenses and Taxes	1,725,588	1,725,795	196
3. Operating Income (Net Return)(Ln1-Ln2)	443,784	443,588	(196)
4. Rate Base (Avg Net Investment)	2,998,024	3,080,745	82,721
5. Rate of Return (Ln3/Ln4)	14.80%	14.40%	
6. Sharing/Low End Adjustment Amount	(16,914)	(16,914)	0
7. FCC Ordered Refund – Amortized for Current Period	N/A	N/A	

REMARKS

See Attached For Comments

CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
April 1, 1996	Robin Gleason	Director-Regulatory Finance	Robin M. Gleason

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

Attachment
FCC 492A

Reporting Company:	Period Covered:
Ameritech Operating Companies	**From:** 01/01/93 **To:** 12/31/93
Ameritech Services	First Report Filed: 04/22/94
2000 West Ameritech Center Dr. 4G50	Final Report Filed: 03/31/95
Hoffman Estates, IL 60196	Revised Report Filed: 04/01/96

The Sharing/Low End Adjustment Amount displayed on Line 6 equals one-half of the sharing exogenous change for the 1992/1993 tariff year plus one-half of the exogenous change for the 1993/1994 tariff year. The amount displayed on Line 6 does not equal the actual rate reductions that occurred due to sharing because the API was below the PCI in some of the Price Cap baskets.

Revenues in the amount of $26.4 million associated with excluded services under Price Cap incentive regulation are excluded from the data reported. Earnings associated with these services were removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

In addition to the above, Column B for Lines 2, 3, 4, and 5 has been adjusted to incorporate the Commission's Memorandum Opinion and Order and Notice of Proposed Rulemaking in cc Docket No. 96-22; Rate Base Treatment for OPEBs.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Approved by OMB
3060-0355
Expires 05/31/98

See reverse side for information regarding public burden estimate

Name and Address of Reporting Company	2. Reporting Calendar Year
Ameritech Operating Companies Ameritech Services 2000 West Ameritech Center Drive 4G50 Hoffman Estates, IL 60196	(A) From: 01/01/94 To: 12/31/94 (B) First Report Filed: March 31, 1995 (C) Final Report Filed: April 1, 1996

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT

Read Instructions on the Reverse Before Completing
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Column A	Final Report Column B	Difference Column C = (B - A)
1. Total Revenues	2,300,450	2,300,450	0
2. Total Expenses and Taxes	1,892,359	1,892,726	367
3. Operating Income (Net Return)(Ln1-Ln2)	408,091	407,724	(367)
4. Rate Base (Avg Net Investment)	2,919,603	3,045,272	125,669
5. Rate of Return (Ln3/Ln4)	13.98%	13.39%	
6. Sharing/Low End Adjustment Amount	(42,202)	(42,202)	0
7. FCC Ordered Refund - Amortized for Current Period	N/A	N/A	

REMARKS

See Attached For Comments

CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
il 1, 1996	Robin Gleason	Director-Regulatory Finance	Robin M. Gleason

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

Attachment
FCC 492A

Reporting Company:	Period Covered:	
Ameritech Operating Companies	**From:** 01/01/94 **To:**	12/31/94
Ameritech Services, Inc.	**First Report Filed:**	**03/31/95**
2000 W. Ameritech Center Drive 4G50	Revised Report:	05/09/95
Hoffman Estates, IL 60196	Revised Report:	07/27/95
	Final Report Filed:	**04/01/96**

The Sharing/Low End Adjustment Amount displayed on Line 6 equals one-half of the sharing exogenous change for the 1993/1994 tariff year plus one-half of the exogenous change for the 1994/1995 tariff year. The amount displayed on Line 6 does not equal the actual rate reductions that occurred due to sharing because the API was below the PCI in some of the Price Cap baskets. The amount on Line 6 has been added to Line 1 (Revenues) to reflect "Add-Back" in accordance with the Report and Order released April 14, 1995. Lines 2, 3, 4 and 5 are adjusted to accommodate the change in Line 1.

Revenues in the amount of $23.4 million associated with excluded services under Price Cap incentive regulation are excluded from the data reported. Earnings associated with these services were removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

In addition to the above, Column B for Lines 2, 3, 4, and 5 has been adjusted to incorporate the Commission's Memorandum Opinion and Order and Notice of Proposed Rulemaking in cc Docket No. 96-22; Rate Base Treatment for OPEBs.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Approved by OMB
3060-0355
Expires 05/31/98

See reverse side for information regarding public burden estimate

·me and Address of Reporting Company	2. Reporting Calendar Year
Ameritech Operating Companies Ameritech Services 2000 W. Ameritech Center Drive 4G50 Hoffman Estates, Illinois 60196	(A) From: 01/01/95 To: 12/31/95 (B) First Report Filed: April 1, 1996 (C) Final Report Filed:

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT

Read instructions on the Reverse Before Completing
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation		
	First Report Column A	Final Report Column B	Difference Column C = (B - A)
1. Total Revenues	2,314,807		
2. Total Expenses and Taxes	1,795,638		
3. Operating Income (Net Return)(Ln1-Ln2)	519,169		
4. Rate Base (Avg Net Investment)	3,093,308		
5. Rate of Return (Ln3/Ln4)	16.78%		
Sharing/Low End Adjustment Amount	---		
7. FCC Ordered Refund - Amortized for Current Period	N/A		

REMARKS

See Attached For Comments

CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
·il 1, 1996	Robin Gleason	Director-Regulatory Finance	Robin M. Gleason

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

Attachment
FCC 492A

Reporting Company:
Ameritech Operating Companies
Ameritech Services, Inc.
2000 W. Ameritech Center Drive 4G50
Hoffman Estates, IL 60196

Period Covered:
From: 01/01/95 **To:** 12/31/95
First Report Filed: 04/01/96

The sharing amount impacting 1995 results is $57.0m which equals one-half of the sharing exogenous change for the 1994/1995 tariff year plus one-half of the exogenous change for the 1995/1996 tariff year. This amount does not equal the actual rate reductions that occurred due to sharing because the API was below the PCI in some of the Price Cap baskets. Because Ameritech elected the 5.3 productivity offset in last year's annual filing coupled with the Commission's granting of Ameritech's waiver request, Ameritech has not adjusted its earnings for the $57.0m in 1995.

Revenues in the amount of $22.0 million associated with excluded services under Price Cap incentive regulation are excluded from the data reported. Earnings associated with these services were removed based on the assumption that these excluded services earned the same rate of return as total interstate services.

In addition to the above, Column A for Lines 2, 3, 4, and 5 has been adjusted to incorporate the Commission's Memorandum Opinion and Order and Notice of Proposed Rulemaking in cc Docket No. 96-22; Rate Base Treatment for OPEBs.

EXHIBIT 2

PACIFIC BELL
WORKPAPER IIC-5

1994 SHARING REVISION

($000s)

			FCC Form 492A Results	
			First (Revised) reported 5/95 (a)	*Final* reported 3/96 (b)
1994 Calendar year results				
1.	Net return (including addback)	Form 492A, Item 3, Ln 3	370,577	370,798
2.	Rate Base	Form 492A, Item 3, Ln 4	2,424,222	2,484,261
3.	Rate of return	Line 1 / Line 2	15.29%	14.93%
4.	1994 earnings at 12.25% Rate of Return	Line 2 x .1225	296,967	304,322
5.	Earnings subject to sharing	Line 1 - Line 4	73,610	66,476
6.	Earnings required to be shared	Line 5 x 50%	36,805	33,238
7.	Tax gross-up factor	See note 2	1.696209	1.696209
8.	Sharing revenue requirement	Line 6 x Line 7	62,429	56,379
9.	Addtional sharing required, final vs. first	Line 8b - Line 8a		(6,050)
10.	Interest at 11.25% for two years	Line 9 x .1125 x 2		(1,361)
11.	Total sharing requirement adjustment	Line 9 + Line 10		(7,411)

Note 1 Line 1 includes $3,984K for addback, as shown in Workpaper IIC-6, Page 2 of 2, from *Transmittal No. 1803.*

Note 2 Tax gross up factor is based on Federal Income Tax rate = 0.35 and State Income Tax rate = 0.093.
The composite tax factor = 0.093 + (0.35 * (1 - 0.093)) = 0.41045.
The gross up factor = 1 + (0.41045/ (1 - 0.41045)) = 1.696209.

PACIFIC BELL
WORKPAPER IIC-12

1993 SHARING REVISION

($000s)

			FCC Form 492A Results	
			Final reported 3/95	Final (Revised) as of 3/96
			(a)	(b)
1993 Calendar year results				
1.	Net return	Form 492A, Item 3, Ln 3	316,215	316,215
2.	Rate Base	Form 492A, Item 3, Ln 4	2,453,436	2,504,842
3.	*Rate of return*	*Line 1 / Line 2*	12.89%	12.62%
4.	1994 earnings at 12.25% Rate of Return	Line 2 x .1225	300,546	306,843
5.	Earnings subject to sharing	Line 1 - Line 4	15,669	9,372
6.	Earnings required to be shared	Line 5 x 50%	7,835	4,686
7.	Tax gross-up factor	See Note 1	1.696209	1.696209
8.	Sharing revenue requirement	Line 6 x Line 7	13,289	7,948
9.	Addtional sharing required, revised v. final	Line 8b - Line 8a		(5,341)
10.	Interest at 11.25% for three years	Line 9 x .1125 x 3		(1,802)
11.	Total sharing requirement adjustment	Line 9 + Line 10		(7,143)

Note 1 Tax gross up factor is based on Federal Income Tax rate = 0.35 and State Income Tax rate = 0.093.
The composite tax factor = 0.093 + (0.35 * (1 - 0.093)) = 0.41045.
The gross up factor = 1 + (0.41045/ (1 - 0.41045)) = 1.696209.

Pacific Bell
Impact of Vacating Ratemaking Instructions in RAO 20 re Account 4310 Related to SFAS 106

Ln	Description	Source	1993	1994	1995
1	Account 4310 related to SFAS 106, Subject to Separations	Records	285,042,758	354,743,146	404,151,746
2	Interstate Factor	Records	18.03%	18.39%	19.02%
3	Interstate 4310 (SFAS 106 related)	Ln 1 x Ln 2	51,405,978	65,229,460	76,862,792
4	Return @ 12.25%	Ln 3 * 12.25%	6,297,232	7,990,609	9,415,692
5	Tax Factor	Records	1.696209	1.696209	1.696209
6	Revenue Requirement @ 12.25%	Ln 4 x Ln 5	10,681,422	13,553,743	15,970,981
7	50% Sharing	Ln 6 x 50%	5,340,711	6,776,871	7,985,491
8	Half year reduction	Ln 7 / 2	-	-	3,992,745
9	Reduction in Sharing Liability Principal	Ln 7 - Ln 8	5,340,711	6,776,871	3,992,745
10	Interest @ 11.25% per year	Ln 9 x 11.25% x Yrs	1,802,490	1,524,796	449,184
11	Reduction in Sharing Liability Including Interest	Ln 9 + Ln 10	7,143,201	8,301,667	4,441,929

Appendix A

PACIFIC BELL
WORKPAPER IIC-6

1995 SHARING REQUIREMENT

($000s)

1995 Calendar year results (Source: FCC Form 492A)

1.	Operating income incl addback (see Note 1)	Form 492A, Item 3, Ln 3	370,455
2.	Rate Base	Form 492A, Item 3, Ln 4	2,451,590
3.	Rate of return	Line 1 / Line 2	15.11%
4.	1994 earnings at 12.25% rate of return	Line 3 x .1225	300,320
5.	Earnings subject to sharing	Line 1 - Line 4	70,136
6.	Earnings required to be shared	Line 5 x 50%	35,068
7.	Earnings to be shared adjusted for half-year	Line 6 / 2	17,534
8.	Tax gross-up factor	See Note 2	1.696209
9.	Sharing revenue requirement	Line 7 x Line 8	29,741
10.	Interest at 11.25%	Line 9 x .1125	3,346
11.	Total sharing requirement	Line 9 + Line 10	33,087

PACIFIC BELL
WORKPAPER IIC-6

1995 SHARING REQUIREMENT

($000s)

Note 1 Addback calculation:

1994 Tariff period sharing revenue	
1992 sharing adjustment	(4,010)
1993 sharing	13,884
Total	9,874
Amount shared in 1995. Tariff period sharing x 6/11	5,386
1995 Tariff period sharing revenue	
1993 sharing adjustment	991
1994 sharing	69,452
Total	70,443
Amount shared in 1995 (Aug 95 - Dec 95). Tariff period sharing x 5/11	32,020
1995 calendar year shared revenue	37,405
Net income adjustment (1- composite tax rate of 41.045%)	0.589550
1995 net income reduction due to sharing	22,052

Note 2 Tax gross up factor is based on Federal Income Tax rate = 0.35 and State Income Tax rate = 0.093. The composite tax factor = 0.093 + (0.35 * (1 - 0.093)) = 0.41045. The gross up factor = 1 + (0.41045 / (1 - 0.41045)) = 1.696209.

Pacific Bell
Timeline Depiction of Calculation of 1995 Addback Amount

	J	F	M	A	M	Jn	Jl	A	S	O	N	D	Total 95
1	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94						7/12 x 94
2								-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-5/11 x (1/12 x 94)
3								1/11 x 95	1/11 x 95	1/11 x 95	1/11 x 95	1/11 x 95	5/11 x 95

Where,

"94" refers to the sharing liability to be returned to ratepayers in rates effective 7/1/94
"95" refers to the sharing liability to be returned to ratepayers in rates effective 8/1/95

1 reflects the return of 94 earnings in rates effective 7/1/94 designed to share 1/12 of the 94 earnings each month, extending from Jan 95 through Jul 95, seven months.

2 reflects the adjustment to return to Pacific the extra month of sharing of 94 earnings that occurred in Jul 95 because of the extension of the tariff period by one month. The amount is returned over eleven months (Aug 95-Jun 96), five of which are in calendar year 1995.

3 reflects the return of 95 earnings in rates effective 8/1/95, one eleventh each month through June 1996. Five of the tariff period months are in calendar year 1995.

PACIFIC BELL
WORKPAPER IVC-1

1996-97 TARIFF PERIOD FORECAST
BASE FACTOR PORTION REVENUE REQUIREMENT

($000s)

	1995 BASE YEAR (2)	1996/97 FORECAST	VARIANCE (4) AMOUNT	%
Revenue Requirement	878,002	855,304	(22,698)	-2.59%
Miscellaneous Income	4,920	4,923	3	0.07%
Uncollectibles	3,173	3,173	-	0.00%
Net Revenue	879,748	857,054	(22,694)	-2.58%
Total Expenses (3)	630,044	620,054	(9,990)	-1.59%
Taxes less FIT	40,152	38,865	(1,287)	-3.21%
Federal Income Taxes	50,570	49,471	(1,099)	-2.17%
Return	163,928	148,664	(15,264)	-9.31%
Average Net Investment	1,457,136	1,321,456	(135,680)	-9.31%

(1) Annual growth in revenue requirement from the mid-point of the base year to the mid-point of the tariff period (18 months) is -1.73%

(2) 1995 Base Year revised to reflect final view of 1995 results including RAO 20 rescission. Original workpaper displayed early view of 1995 data.

(3) 1996/97 Forecast Total Expenses revised. Original submission included Property Taxes on this line as well as the one below. The revenue requirement number is not affected; simply a display error.

(4) The variance amounts and percentages are restated to reflect the revisions noted in (2) and (3).

Pacific Bell
Impact on 1994 Interstate Base Factor Portion Revenue Requirement of Vacating Ratemaking Instructions in RAO 20 re Account 4310 Related to SFAS 106

Ln	Description	Source	Amount ($M)
1	Account 4310 related to SFAS 106, Subject to Separations	Records	354.74
2	Interstate Base Factor Portion (BFP) Ratio for Account 4310	Records	10.79%
3	Interstate BFP Account 4310 related to SFAS 106	Ln 1 x Ln 2	38.28
4	Return @ 11.25%	Ln 3 x 11.25%	4.31
5	Tax Factor	Records	1.696209
6	Revenue Requirement @ 11.25%	Ln 4 x Ln 5	7.30

Pacific Bell
Impact on 1996-97 Interstate Base Factor Portion Revenue Requirement
Resulting From Different Distribution of Expenses by Account in Budget vs Base Year
($M)

	SUBJECT TO SEPARATIONS			INTERSTATE	
	ACTUAL 1995 (A)	BUDGET 1996-97 (B)	VARIANCE (C=B-A)	BFP FACTORS (D)	VARIANCE IN IS BFP (E=CxD)
EXPENSES					
1 Plant Specific Exp (61XX-64XX)	1,287.7	913.7	(374.0)	12.56%	(47.0)
2 Plant Non-Specific (651X-654X)	752.1	941.3	189.2	11.56%	21.9
3 Marketing (661X)	417.0	411.0	(6.0)	12.86%	(0.8)
4 Services (662X)	939.0	1,158.8	219.8	2.79%	6.1
5 Corporate (67XX)	1,216.9	1,013.8	(203.1)	9.61%	(19.5)
6 Other (7370)	8.6	12.5	3.9	10.75%	0.4
7 Expense excl Depreciation (1T6)	4,621.3	4,451.1	(170.2)		(38.8)
8 FCC Expense Adjustment	#N/A	#N/A	#N/A		#N/A
9 Depreciation (656X)	1,738.9	1,999.0	260.1	10.84%	28.2
10 TOTAL EXPENSES (7T9)	6,360.2	6,450.1	89.9		(10.6)

Notes

1995 expenses include $570 related to restructure reserve and SFAS 106 curtailment loss. The 1995 level for restructure reserve bookings will be the highest of the 1994-1997 period. The 1996-97 tariff period is expected to contain only $355M of expense *related to restructure reserve and curtailment loss. The 1996-97 tarfiff period subject to separations is only 1.4% higher than 1995.* Without the variance in restructure reserve bookings, the 1996-97 tariff period would be 4.8% higher.

Plant specific, plant non-specific, depreciation and corporate expenses are down a net $127.8M. This is being driven by the completion of reengineering efforts designed to drive costs out of the business. These expense categories have an IS BFP factor of *9.6% or greater. The heaviest expense categories for IS BFP are declining in the future. On the other hand, customer service* expenses are growing by $219.8M. This is a result of both reengineering efforts in the customer service arena and the growing focus on customer service as we move into an increasingly competitive environment. Services carries the lowest IS BFP factor, 2.79%. Hence, the most insignificant expense category for BFP is expected to decrease in the future.

Pacific Bell
Impact of Assuming FCC Reinstitutes Ratemaking Instructions
for Account 4310 Related to SFAS 106
on 1996/97 Interstate Base Factor Portion Revenue Requirement

Ln	Description	Source	Amount ($M)
1	Account 4310 related to SFAS 106, Subject to Separations	Records	940.40
2	Interstate Base Factor Portion (BFP) Ratio for Account 4310	Records	11.08%
3	Interstate BFP Account 4310 related to SFAS 106	Ln 1 x Ln 2	104.15
4	Return @ 11.25%	Ln 3 x 11.25%	11.72
5	Tax Factor	Records	1.696209
6	Revenue Requirement @ 11.25%	Ln 4 x Ln 5	19.87

PACIFIC BELL
WORKPAPER IIC-7

ESTIMATED 1996 TELECOMMUNICATIONS RELAY SERVICE (TRS) FUND CONTRIBUTION

(Whole dollars)

Basket	Exog Cost Per 1995 Filing (a)	1996 Obligation (b)	1996 Exogenous Costs (c=b-a)
Common Line	201,881	295,182	93,301
Traffic Sensitive	72,409	101,283	28,874
Trunking	105,532	152,175	46,643
Interexchange	32	47	15
Total	379,854	548,688	168,834

(a) From Transmittal No. 1826

(b) Per Pacific's 1996 TRS Fund Worksheet (form FCC 431) to be filed with NECA in April 1996. Calculated as follows:

Interstate Access Revenue (Ln 9c) less Presubscription	1,654,806,243
Interstate Non-operator Switched Toll Svc (Ln 12c)	1,810,790
Interstate Rent Revenue (within Ln 8c)	6,074,429
Total	1,662,691,462
TRS Fund Factor (Ln 15)	0.00033
TRS payment allocated to Price Cap Baskets	548,688

Distribution to the baskets is based on the filed "R" values.

PACIFIC BELL
WORKPAPER IIC-8

FCC REGULATORY FEE
(Whole dollars)

Basket	Remove 1994 Payment & 1995 Estimated Fee included in 1995 Exogenous Costs (a)	1996 Estimated Fee (b)	1996 Exogenous Cost (c=a+b)
Total	(2,849,140)	1,432,522	(1,416,618)
Common Line	(1,671,495)	770,667	(900,828)
Traffic Sensitive	(326,252)	264,432	(61,820)
Trunking	(851,111)	397,301	(453,810)
Interexchange	(282)	124	(158)

(a) From Transmittal No. 1803

(b) 1996 estimated fee is based on 1995 actual fee. That fee was calculated using revenues reported on FCC Form 431 (TRS Fund Worksheet) multiplied by 0.00088. Taking just the revenues from that form that are in the price cap baskets multiplied by the rate yields the following:

Interstate Access Revenue (Ln 9c) less Presubscription	1,621,104,797
Interstate Non-operator Switched Toll Service (Ln 12c)	1,076,634
Interstate Rent Revenue (within Ln 8c)	5,684,877
Total	1,627,866,308
FCC Regulatory Fee Factor	0.00088
FCC Regulatory Fee allocated to Price Cap Baskets	1,432,522

Distribution to the baskets is based on the filed "R" values.

EXHBIT 3

FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554	See reverse side for information regarding public burden estimate.	Approved By OMB 3055-0355 Expires 04/30/96

1. Name and Address of Reporting Company
Southwestern Bell Telephone
One Bell Center Suite 4212
St. Louis, Missouri 63101

2. Reporting Calendar Year
(A) From: January 1, 1994 To: December 31, 1994

(B) First Report Filed:
05/09/95
(C) Final Report Filed:
03/29/96

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT
(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

	Total Interstate Services Subject to Price Cap Regulation		
3. Items	First Report Col A	Final Report Col B	Difference Col C=(B - A)
1. Total Revenues	1,969,463	1,969,463	0
2. Total Expenses and Taxes	1,544,209	1,544,182	(27)
3. Operating Income (Net Return)(Ln1-Ln2)	425,254	425,281	27
4. Rate Base (Avg Net Invest.)	3,167,628	3,268,043	100,415
5. Rate of Return (Ln3/Ln4)	13.43%	13.01%	
6. Sharing/Low End Adjustment Amount	(32,612)	(20,770)	11,842
7. FCC Ordered Refund - Amortized for Current Period			

REMARKS
SEE ATTACHMENTS

4. CERTIFICATION: I certify that I am the chief-financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of person Signing	Title of Person Signing	Signature
03/26/96	Richard G. Lindner	Vice Pres.-CFO & Treasurer	

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001

Southwestern Bell Telephone
Attachment
FCC Form 492A - 1994
Page 1 of 2
March 29, 1996

Excluded services revenues of $11.2 million have been removed from Form 492A as required in the Order on Reconsideration (CC Docket 87-313), paragraph 99 released April 17, 1991, and paragraph 26 of the 1996 TRP Plan, released February 29, 1996. Excluded services revenues represent 0.57% of total revenues prior to their exclusion. Excluded services costs have likewise been excluded from the earnings calculations.

Total revenues include an add-back adjustment of $8.454 million calculated as follows:

	Sharing Exogenous Adjustment	No. of Months In Effect	1994 Amount
1994 Annual Filing Transmittal No. 2344	15,252,000	6.0	7,626,000
09/01/94 Exogenous Cost Filing	3,972,706 (a)	2.5	827,647
1994 Add Back Adjustment			8,453,647
1994 Add Back Adjustment as reflected on Form 492A (000s)			8,454

Note:
(a) See letter and attachments to Mr. William Caton modifying 1994 sharing effective October 16, 1994.

(1) Revised Sharing Including Interest	(18,066,000)
(2) Sharing Included in 1994 Annual Filing	(15,252,000)
(3) Additional Sharing Plus Interest (L1-L2)	(2,814,000)
(4) Gross Up Factor (to reflect 8.5 month period from October 16, 1994 to June 30, 1995)	1.4117647
(5) Total Exogenous Cost (L3 * L4)	(3,972,706)

The final Form 492A for 1994 reflects the application of the Commission's Memorandum Opinion and Order (CC Docket 96-22), released March 7, 1996.

In addition, minor out-of-period adjustments were made after the initial Form 492 for 1994 was filed to reflect the interstate effect of Separations changes in Exchange Message Mixed (EMM) usage.

Following is the calculation of sharing for the 1994 monitoring period:

		Original 492	Final 492
Operating Income (Net Return)		425,254	425,281
Rate Base (Avg. Net Investment)		3,167,628	3,268,043
Net Operating Income @ 12.25%		388,034	400,335
NOI Over 12.25%		37,220	24,946
Tax Gross Up (0.5752)	Note 1	21,409	14,349
Revenue over 12.25%		58,629	39,295
Sharing Amount		(29,314)	(19,647)
Sharing with Interest	Note 2	(32,612)	(20,770)

Notes:

1. Tax Gross Up -

Composite Weighted Effective State Tax Rate	2.33%
Effective Federal Tax Rate (35% * (1-State rate))	34.18%
Combined Effective Rate	36.51%
Tax Gross Up Factor (tax rate/(1-tax rate))	0.5752

2. Interest was calculated on the revised sharing amount as follows:

a. Sharing amount before Interest	(19,647)
b. Interest @ 11.25%	(2,210)
c. Sharing Adjustment [(19,647) - (29,314)]	9,667
d. Interest on Adjustment (1 year @ 11.25%)	1,088
Sharing with Interest (a+b+d)	(20,770)

1993 Sharing Adjustment

1. 1993 Sharing (before interest) from Final Form 492A, filed March 1995		18,066,000
2. 1993 Sharing (before interest)		16,202,642
3. Revised Sharing (before interest)	Note (a)	13,502,047
4. Sharing Adjustment (L3 - L2)		(2,700,595)
5. Interest on Adjustment (L4 * 11.25% * 3 years)		(911,451)
6. Sharing Adjustment including interest (L4 + L5)		(3,612,046)

(a) Revised Sharing is calculated as follows:

1. Net Operating Income		400,666,164
2. Average Net Investment		3,130,948,251
3. Rate of Return	(L1/L2)	12.80%
4. NOI @ 12.25%	(L2 * 12.25%)	383,541,161
5. NOI over 12.25%	(L1-L4)	17,125,003
6. Tax Gross Up (0.5769) **		9,879,092
7. Revenue over 12.25%	(L5 + L6)	27,004,095
8. Sharing Amount	(L7 * 50%)	13,502,047

** - Tax Gross Up:

Weighted Composite Effective State Tax Rate	2.44%
Effective Federal Tax Rate (35% * (1-state rate))	34.15%
Combined Effective State Tax Rate	36.58%
Tax Gross Up Factor (tax rate/ (1-tax rate))	0.5769

2.F EARNINGS SHARING AND LOWER ADJUSTMENT

SWBT's earnings of 13.37% during the 1995 base period, as shown on its Form 492 included as Figure 2F-1, requires a PCI sharing adjustment of ($16,519,896) per Section 61.45(d)(2). The total sharing amount was allocated to the baskets based on each basket's share of price cap revenue as shown in the following table:

BASKET	REVENUE(000)	PERCENT	1995 SHARING
Common Line	$964,910.7	46.1%	($ 7,615,672)
Traffic Sensitive	352,337.9	16.8%	(2,775,343)
Trunking	746,006.9	35.7%	(5,897,603)
Interexchange	28,549.8	1.4%	(231,278)
Video Dial Tone	0	0%	(0)
Total	$2,091,805.3	100.0%	(16,519,896)

SWBT's 1995 Annual Access Tariff Filing contained a sharing adjustment of ($32,612,141) based on reported earnings of 13.43% for the 1994 base period. This total 1994 base period sharing exogenous cost adjustment, adjusted for the change in the 'R' values in existence at the time the PCI sharing adjustment was made*, is being reversed in this filing as a positive exogenous cost. The sharing reversal calculation is shown in the following table.

	(A) 8/1/95 'R'	(B) 7/1/96 'R'	(C) 8/1/95 SHARING	(D) 7/1/96 SHARING REVERSAL*
CL	$964,275,301	$943,906,474	$15,425,543	$15,099,702
TS	326,112,506	328,159,020	5,381,003	5,414,771
TRK	684,324,347	719,367,842	11,283,801	11,861,632
IX	38,919,863	34,171,401	521,794	458,132
VDT	0	0	0	0
TOTAL	$2,013,632,017	$2,025,604,737	$32,612,141	$32,834,237

*D = B/A X C

* See TRP Plan at footnote 23 addressing the calculation of the sharing reversal.

The current reported earnings for the 1994 base period, as shown on its Form 492 included as Figure 2F-2, and consistent with paragraph 25 of the RAO 20 Order* is 13.01%. Since this is lower than the 13.43% ROR and sharing amount included in the current PCIs, an exogenous cost trueup adjustment of $11,841,864 is required. This sharing trueup was allocated to the baskets based on each basket's share of price cap revenue as shown in the following table.

BASKET	REVENUE (000)	PERCENT	1994 SHARING TRUEUP
Common Line	$964,910.7	46.1%	$5,459,099
Traffic Sensitive	352,337.9	16.8%	1,989,433
Trunking	746,006.9	35.7%	4,227,545
Interexchange	28,549.8	1.4%	165,787
Video Dial Tone	0	.0%	0
Total	$2,091,805.3	100.0%	$11,841,864

*Paragraph 25 states "we find that RAO 20 exceeded the Bureau's delegated authority to the extent that it directed exclusions from and additions to the rate base for which the Part 65 rules do not specifically provide.... Accordingly, the portion of RAO 20 that addresses the rate base treatment of prepayments and accrued liabilities related to OPEBs is rescinded."

The RAO 20 Order also caused a revision to the earnings and sharing for the 1993 base period. As shown on Figure 2F-3, 1993 restated earnings are 12.80%. Since this is lower than the 12.91% ROR and sharing amount that was previously included in the PCIs, an exogenous cost trueup adjustment of $3,612,046 is required. This sharing trueup was allocated to the baskets in the same manner as the 1994 sharing trueup, resulting in the following exogenous costs.

BASKET	1993 SHARING TRUEUP
Common Line	$1,665,153
Traffic Sensitive	606,824
Trunking	1,289,500
Interexchange	50,569
Video Dial Tone	0
Total	$3,612,046

EXHIBIT 4

Exhibit 8
Transmittal 217

NEVADA BELL
1994 FINAL SHARING TRUE-UP CALCULATION
for the 1996 Annual Filing

			FINAL 50% Sharing	FINAL 100% Sharing	FINAL Total	ORIGINAL	TRUE-UP NOTE 3
1.	Achieved ROR				17.9195%	18.2169%	-0.2974%
2.	Cap ROR/Achieved ROR (See Note 1)		17.2500%	17.9195%			
3.	Benchmark ROR/Cap ROR (See Note 1)		13.2500%	17.2500%			
4.	Difference	Ln 2 - Ln 3	4.0000%	0.6695%	4.6695%	4.9669%	-0.2974%
5.	Rate Base		$68,007,281	$68,007,281			
6.	Shared Earnings	Lns 5 x Ln 4	2,720,291	455,287			
7.	Tax Gross Up (See Note 2)	Ln 6 x .53846	1,464,773	245,155			
8.	Total to be Shared	Ln 6 + Ln 7	$4,185,065	$700,441			
9.	Customer Sharing Percent		50.00%	100.00%			
10.	Customers' Sharing	Ln 9 x Ln 8	$2,092,532	$700,441	$2,792,974	3,033,396	($240,423)
11.	Interest on Sharing (Jan 1-Dec 31, 1995)	Ln 10 x 11.25%			314,210	341,257	(27,048)
12.	Total to Customers	Ln 10 + Ln 11			$3,107,183	$3,374,653	($267,470)
13.	Interest on Revision - Jan 1-Dec 31, 1996	(Ln 10 True-up x 11.25%)			(27,048)	N/A	(27,048)
14.	Total to Customers	Ln 12 + Ln 13			$3,080,136	N/A	($294,518)

NOTE 1:
In the 1993 Filing, Transmittal Letter No. 156, April 2, 1993, a 4.3 Productivity Factor was chosen.
In the 1994 Filing, Transmittal Letter No. 196, April 1, 1994, a 4.3 Productivity Factor was chosen.

Productivity Factor	Sharing Benchmark	Cap
3.3	12.25%	16.25%
4.3	13.25%	17.25%
Mixed	12.75%	16.75%

NOTE 2: Federal Tax Rate is 35%. Gross up factor = Tax Rate/(1-Tax Rate)
NOTE 3: Change in sharing is due to Revenue Normalization, the finalization of certain studies, and the rescinding of OPEB ratebase treatment included in RAO 20 per Memorandum Opinion and Order and Notice of Proposed Rulemaking, in CC Docket No. 96-22, released March 7, 1996.

ALLOCATION TO PRICE CAP BASKETS

BASKET	REVENUE	DISTR	FINAL SHARING	SHARING INCLUDED IN 8/1/95 RATES	1994 SHARING TRUE-UP TO BE INCLUDED IN 7/1/96 RATES
Carrier Common Line	$18,683,702	35.40%	($1,090,273)	(1,197,123)	$106,851
Traffic Sensitive	16,583,566	31.42%	(967,721)	(1,060,893)	93,172
Trunking	17,429,041	33.02%	(1,017,058)	(1,111,054)	93,996
Interexchange	87,120	0.17%	(5,084)	(5,583)	499
TOTAL	$52,783,428	100.00%	($3,080,136)	($3,374,653)	$294,518

Exhibit 8A
Transmittal 217

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

See reverse side for information regarding public burden estimate.

Approved By OMB
3060-0355
Expires 04/30/96

1. Name and Address of Reporting Company
Nevada Bell
645 E. Plumb Lane
Reno, NV 89520

2. Reporting Calendar Year
(A) From: Jan 94 To: Dec 94
(B) First Report Filed: 5/9/95(revised)
(C) Final Report Filed: 3/31/96

FCC 492A

PRICE CAP REGULATION
RATE OF RETURN MONITORING REPORT

(Read Instructions on the Reverse Before Completing)
Dollar Amounts Shown in Thousands

3. Items	Total Interstate Services Subject to Price Cap Regulation First Report Col A	Final Report Col B	Difference Col C = (B - A)
1 Total Revenues	52,660	52,783	123
2 Total Expenses and Taxes	40,554	40,597	43
3 Operating Income(Net Return)(Ln1-Ln2)	12,106	12,186	80
4 Rate Base (Avg Net Invest)	66,457	68,007	1,551
5 Rate of Return (Ln3/Ln4)	18.22%	17.92%	(.30%)
6 Sharing/Low End Adjustment Amount	(3,375)	(3,080)	295
7 FCC Ordered Refund - Amortized for Current Period	None		

REMARKS <u>Add-Back</u> Revenue was increased by $2,233K to include the sharing obligation reflected in 1994 calendar rates.
<u>Excluded Services</u> Revenue and associated costs totaling $318K have been excluded from price cap earnings for Presubscription and Individual Case Basis.
<u>Calculation of Sharing</u> Sharing was calculated using the following 6 steps: 1) The difference was calculated between the achieved rate of return of 17.92% and 17.25%, the rate at which sharing is 100% with a 4.3% productivity factor. 2) The difference was calculated between the cap rate of return of 17.25% and 13.25%, the range at which sharing is 50% with a 4.3 productivity factor. 3) To determine shareable earnings, both differences were multiplied by the jurisdictional rate base and grossed up for tax using a factor of 1+1/(1-tax rate) or 1.538462. The tax rate used is the federal income tax rate of 35% as Nevada has no state income tax. 4) The customer's share was calculated by multiplying shareable earnings in the 50% sharing range by 50% and adding the sharable earnings in the 100% range and 5) Interest was applied using an annual interest rate of 11.25% for 12 months reflecting the period from 1/1/95 to the midpoint of the sharing period (12/31/95). 6) The difference between the original and final sharing amounts was calculated and an additional 12 months of interest for 1/1/96 to 12/31/96 at 11.25% was applied.
<u>Difference in Final Report</u> The change in sharing is due to Revenue Normalization, the finalization of certain studies, and the rescinding of OPEB ratebase treatment included in RAO 20 per <u>Memorandum Opinion and Order and Notice of Proposed Rulemaking</u> in CC Docket No. 96-22, released March 7, 1996.

4. CERTIFICATION: I certify that I am the chief financial officer or the duly assigned accounting officer; that I have examined the foregoing report; that to the best of my knowledge and belief, all statements of fact contained in this report are true and this report is a correct statement of the business and affairs of the above-named respondent in respect to each and every matter set forth therein during the specified period.

Date	Typed Name of Person Signing	Title of Person Signing	Signature
3/27/96	M. P. Coffey,	CFO & Strategic Planning Vice President	M. P. Coffey

PERSONS MAKING WILLFUL FALSE STATEMENTS IN THIS REPORT FORM CAN BE PUNISHED BY FINE OR IMPRISONMENT UNDER THE PROVISIONS OF THE U.S. CODE, TITLE 18, SECTION 1001.

FCC 492A

Attachment 1
Proposed 5/13/96

NEVADA BELL
IMPACT OF RAO 20 RATEBASE TREATMENT ON SHARINGS
for the 1996 Annual Filing

Ln #	Description	Source	Whole Dollars	
1	Total OPEB	Acct 4310.9 less 1410	5,356,646	
2	Interstate Factor		32.3211%	
3	Interstate OPEB	Ln 1 x Ln 2	1,731,325	
4	Composite ROR	(17.25 +13.25)/2	15.25%	
5	Shared Earnings	Ln 3 x Ln 4	264,027	
6	Tax Gross Up	1+(.35/(1-.35))	1.5385	
7	Shared Earnings with Tax	Ln 5 x Ln 6	406,195	
8	Interest Rate		11.25%	
9	Interest 1st Year	Ln 7 x Ln 8	45,697	
10	Interest 2nd Year	Ln 7 x Ln 8	45,697	
11	Sharing to customer at 100%	Ln 7 + Ln 9 + Ln 10	497,589	(Note 1)

Note 1: Reduction to sharing as a result of the rescinding of RAO 20

ATTACHMENT 2

EXHIBIT 1

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1996 Annual Access Tariff Filing	)	Transmittal No. 961
Ameritech Operating Companies	)	
Revisions to Tariff FCC No. 2	)	

OPPOSITION OF AMERITECH

Ameritech[1] submits this opposition to petitions filed by AT&T Corp. ("AT&T"), MCI Telecommunications Corporation ("MCI"), and Sprint Communications Company, L.P. ("Sprint") regarding the 1996 annual access tariff filing of Ameritech and other local exchange carriers ("LECs").

I. RAO 20 Adjustments.

In their annual access filings, Ameritech and other LECs made adjustments to correct the effect of the Common Carrier Bureau's ("Bureau") 1992 directive requiring LECs to remove accrued liabilities associated with other post employment benefits ("OPEBs") from their rate bases.[2] The effect of the Bureau's order was to decrease the LECs' interstate rate base, increasing their apparent interstate earnings which, for Ameritech, resulted in an increase in price cap sharing due to earnings in 1992, 1993,

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[1] Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

[2] Responsible Accounting Officer Letter 20, DA 92-520 (released May 4, 1992) ("RAO 20").

and 1994. In its recent order on RAO 20,[3] the Commission correctly concluded that, in that letter, the Bureau had exceeded its authority to the extent that it directed exclusions from and additions to the rate base for which the Commission's Part 65 rules do not specifically provide. In essence, the Bureau exceeded its authority which is limited to explaining, interpreting and resolving accounting matters. The Commission, therefore, rescinded the letter.

AT&T and MCI both claim that it is inappropriate for any LEC to attempt to correct the effects of RAO 20 because these are inappropriate retroactive changes,[4] because the Commission rules provide that LECs can adjust their reported earnings only within 15 months of the end of the calendar year,[5] because no waiver was requested pursuant to the Commission's exogenous change rules,[6] and because the adjustment is premature since the Commission is currently considering how OPEBs should be treated in the context of its recent rulemaking initiated by the RAO Order.[7]

The argument that the proposed changes are improperly retroactive is without merit. Whatever the rule against retroactive ratemaking means, it has never been interpreted as prohibiting a carrier from recouping amounts it has previously been

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[3] In the Matters of Responsible Accounting Officer Letter 20, Uniform Accounting for Post Retirement Benefits Other Than Pensions in Part 32 and Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base, Memorandum Opinion and Order and Notice of Proposed Rulemaking, AAD 92-65 and CC Docket No. 96-22 (released March 7, 1996) ("RAO 20 Order").

[4] AT&T at note 8.

[5] MCI at 6.

[6] AT&T at 5, MCI at 7.

[7] MCI at 5; see also Sprint at 4-5.

barred from recovering from ratepayers via unlawful regulatory action. To hold otherwise would raise serious questions of unconstitutional confiscation.

Moreover, no separate waiver request is necessary[8] because no separate determination is required of the Commission for a finding that LEC adjustments herein are appropriate if the unauthorized Bureau action had a detrimental impact on LEC revenues. As noted above, the Commission already determined that the Bureau had no authority to order the reduction of LEC rate bases by the amount of the OPEB accrued liability. The Commission cannot, within constitutional bounds, hold that LECs cannot take corrective action. The only matter truly at issue is whether the amount of the adjustments proposed by the LECs in this case are appropriate. However, that issue is one that is easily addressed in the context of this tariff proceeding.

Ameritech took the adjustment in this filing, not as an exogenous cost change, but rather as a sharing adjustment due to a change in prior period earnings. No separate waiver is required for Ameritech to go back more than 15 months to amend prior period earnings because the Commission made all the necessary findings that that is an appropriate course of action in the RAO 20 Order when it found that RAO 20's rate base directive, which led to misstated earnings figures, was <u>ultra vires.</u> Moreover, even if this adjustment were to be considered an exogenous cost change, no separate waiver is required. Clearly, to the extent that RAO 20 resulted in LEC rate changes, the requirements of the Commission's exogenous cost rules have been met – i.e., there was an economic cost change caused by administrative requirements beyond the control of

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[8]With respect to either the 15-month earnings adjustment provision or the exogenous cost rules.

the price cap carriers which is not reflected in the GDP-PI.[9] The Commission's finding in the RAO Order that the rate base aspects of RAO 20 were void must, therefore, necessarily be considered an exogenous cost waiver.

In addition, the fact that the Commission is currently considering the appropriate rate base treatment of OPEB costs is irrelevant since, as the Commission itself admits, that would constitute a rule change that would have prospective effect only.

Alternatively, petitioners all allege that Ameritech and other LECs have not adequately documented their adjustments. Ameritech, however, submitted an Exhibit 13 with its annual filing which detailed the effects of the RAO 20 adjustments on Ameritech's rate base, returns, and sharing.

As AT&T stated, "The LECs should be allowed to include in the rate base what was previously excluded, in order to preclude the LECs from gaming the rules."[10] Consistent with that statement, Ameritech made the OPEB adjustments to its 1992, 1993, and 1994 rates bases to reflect actual 4310.2 account balances.

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[9] In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, FCC 95-132 (released April 17, 1995) ("LEC Price Cap Review Order") at ¶ 293. AT&T's argument (at note 13) that the Commission needs to examine whether the OPEB expenses would have been allowed as exogenous costs in the calculation of price cap indexes in prior periods is a red herring. At issue here is the rate base treatment of OPEB accruals not whether OPEB expenses, which were still booked as expenses on an accrual basis, might have been appropriately factored into exogenous adjustments to the price cap indexes.

[10] AT&T at Appendix B-3.

No estimates were used since actual account balances are available.[11] Specifically, Ameritech adjusted the rate base using a methodology that utilized actual Account 4310.2 balances to reverse the effects of previous reductions to the interstate rate bases. Account 4310.2 balances were obtained by month by state jurisdiction for the period July, 1992, through December, 1995. An average balance was calculated for each year for each jurisdiction. (The 1992 value is the six-month average of the months July through December for which recorded results were available.) The separations process was simulated in order to obtain the interstate amount to be overlayed to the rate base. This was done by selecting one month in each year for each state which most closely approximated the annual average. For example, the calculation of the average balance in Account 4310.2 for the Michigan jurisdiction for the year 1993 resulted in a number that most closely matched the value of Account 4310.2 in the October, 1993, settlement month. Thus, October, 1993, separations data was then used to determine the interstate average net investment value for Michigan for the year 1993.

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[11] AT&T attempted to develop an estimate of the rate base adjustments applicable to Ameritech using information from Ameritech's direct case. That direct case, however, was only Ameritech's <u>estimate</u> of the 1993 effects of OPEB adjustments intending to demonstrate that exogenous cost treatment should be granted for the incremental costs of implementing SFAS No. 106 (costs over and above the previous cash or "pay-as-you-go" basis). Several events have occurred which have affected these estimates. Significant work force reductions resulted in curtailments of Ameritech's OPEB plans. Ameritech measured the curtailment losses in accordance with SFAS No. 106 (¶¶ 96-99). These amounts were determined by an independent actuarial firm who furnished the details to Ameritech's external auditors as part of their annual attestation. RAO 24 (Accounting for Workforce Reduction Programs, Released March 24, 1994) requires that these OPEB-related costs be recognized as current period operating costs at the time of payment or when employees leave the payroll -- thus increasing OPEB accrual liability. Also, Ameritech has on occasion made additional payments to the non-management VEBA which reduces OPEB liability. Moreover, the AT&T analysis ignores the fact that the amount reflected in Account 4310.2 in a given year is a cumulative balance carried over from prior years, not just the result of one year's activity. This flaw is evident in the calculation shown on line 6 of Appendix B-3 which incorrectly uses a zero balance starting point in determining the average.

On another point, with respect AT&T's and MCI's allegation that the LECs have failed to show all rate impacts of the re-inclusion of these OPEB amounts in the rate base,[12] Ameritech would note that the impact of the inclusion on the common line revenue requirement is more complex than the issue involved in this case. Here we are dealing simply with index adjustments that account for the fact that LECs shared too much in the past because of a Bureau error. Increasing the base factor portion ("BFP") revenue requirement as suggested by MCI could potentially result in end user common line ("EUCL") rate increases as well as carrier common line ("CCL") rate decreases. Obviously, the issue of EUCL rate increases is a more complex one that would more appropriately be resolved outside the context of a tariff review proceeding.[13]

II. Reversal of Sharing Amounts Included in 95/96 Rates.

Sprint argues that Ameritech incorrectly calculated the "exogenous cost increase" associated with the reversal of sharing currently included in its interstate rates. Ameritech agrees that its reversal of 1994 sharing as shown in Transmittal No. 961 is incorrect due to the use of an incorrect R Factor in calculating the figures shown on form EXG-1. However, Sprint apparently took the 1995 data utilized in Appendix 1 of its petition from Ameritech's TRP filed on May 9, 1995, in connection with Transmittal No. 882. That TRP, however, was superseded by the TRP filed on July 27, 1995, with Transmittal No. 905. Attachment A shows the calculation using the revised data.

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[12] AT&T at 8-9, MCI at 6.

[13] It should be noted that no CCL rate decreases would be appropriate unless corresponding and off-setting EUCL rate increases were authorized as well. Otherwise, constitutional confiscation issues would be implicated.

In addition, although there were no comments from any party on the issue, Ameritech would point out that the its use of an incorrect R Factor also affected the reversal of its 5.3 waiver amount.[14] The corrected figures for the reversal of that amount are included on Attachment B.

The corrections as shown will be included in any compliance submission made by Ameritech in connection with this annual filing.

Respectfully submitted,

Michael S. Pabian /enit

Michael S. Pabian
Counsel for Ameritech
Room 4H82
2000 West Ameritech Center Drive
Hoffman Estates, IL 60196-1025
(847) 248-6044

Dated: May 13, 1996

[14] Order, DA 95-1611 (released July 18, 1995).

CERTIFICATE OF SERVICE

I, Deborah L. Simmons, do hereby certify that a copy of the foregoing Opposition of Ameritech has been served on the parties listed below via first class mail, postage prepaid, on this 13th day of May 1996.

By: Deborah L. Simmons /emt
Deborah L. Simmons

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
Seth S. Gross
Attorneys for AT&T
Room 3244J1
295 North Maple Avenue
Basking Ridge, NJ 07920

Don Sussman
Alan Buzacott
Attorneys for
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

Leon M. Kestenbaum
Norina T. Moy
Attorneys for
Sprint Communications Company L.P.
1850 M Street, N.W., Suite 1110
Washington, DC 20036

ATTACHMENT A

Ameritech Operating Companies

Reversal of 1994 Sharing Amount

	Source	Total
1994 Sharing in PCIs	TRP in Transmittal No. 905 filed 7/27/95 Form EXG-1 Col J, Rows 160 + 360 + 560 + 760	(45,327,001)
Prior Base Period "R" value	TRP in Transmittal No. 905 filed 7/27/95 Form PCI-1 Row 160, Sum of Cols A-D	2,324,334,502
Current Base Period "R" Value	TRP in Amended Transmittal No. 961 filed 4/17/96 Form PCI-1 Row 160, Sum of Cols A-E	2,374,954,941
Revised 1994 Sharing Reversal Amount	(Ln 1 * -1) *(Ln3/Ln2)	46,314,154
Original 1994 Sharing Reversal in Annual Filing	TRP in Amended Transmittal No. 961 filed 4/17/96 Form EXG-1 Col H, Rows 160+ 360+560+760	47,067,478
Difference Between Original and Revised Reversal	(Ln 5 -Ln 4)	753,324

ATTACHMENT B

Ameritech Operating Companies

Reversal of PCI Reduction Per 5.3 Waiver

PCI Reduction 5.3 Waiver *	TRP in Transmittal No. 905 filed 7/27/95 Form EXG-1 Col P, Rows 160 + 360+ 560 + 760	(35,071,000)
Prior Base Period "R" value	TRP in Transmittal No. 905 filed 7/27/95 Form PCI-1 Row 160, Sum of Cols A-D	2,324,334,502
Current Base Period "R" Value	TRP in Amended Transmittal No. 961 filed 4/17/96 Form PCI-1 Row 160, Sum of Cols A-E	2,374,954,941
Revised PCI Reduction Reversal Amount	(Ln1 * -1) * (Ln3/Ln2)	35,834,793
Original PCI Reduction Reversal in Annual Filing	TRP in Amended Transmittal No. 961 filed 4/17/96 Form EXG-1 Col P, Rows 160 + 360 + 560 + 760	36,374,782
Difference Between Original and Revised Reversal	(Ln 5 -Ln 4)	539,989

* PCI Reduction Memorandum Opinion & Order DA95-1611

EXHIBIT 2

MAY 1 3 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before The
Federal Communications Commission
Washington, D.C. 20554

In the Matter of 1996 Annual Access Charge Tariff Filings Nevada Bell Revisions to Tariff FCC No. 1	)))))))	Transmittal No. 217

RESPONSE OF NEVADA BELL TO PETITIONS TO REJECT OR SUSPEND AND INVESTIGATE ITS 1996 ANNUAL ACCESS TARIFF FILING

Nevada Bell hereby responds to the Petitions to Reject, or in the Alternative to Suspend and Investigate filed by AT&T, MCI Telecommunications Corporation ("MCI") and Sprint Communications Company, L.P. ("Sprint") on April 29, 1996. The objections center on calculations relating to RAO 20, Base Factor Portion (BFP), add back of sharing and Regulatory Fees. While we acknowledge that one minor revision is necessary to our annual filing, we do not agree with the petitioners' claims.

WE APPROPRIATELY CALCULATED THE EFFECTS OF RAO 20

All three carriers take issue with how the recent rescission of RAO 20 affects the rates filed in the 1996 annual filing. The petitioners have focused on a variety of the calculations relating to RAO 20. AT&T (p.2-8), MCI (p. 3-6) and Sprint (p. 1-5) claim that we did not adequately justify our inclusion of the amounts added back into the rate base as a result of the rescission of RAO 20. In addition, AT&T argues that we should not have engaged in an exogenous cost change without prior commission approval. All three carriers allege that we failed to include the effect of RAO 20 rescission on BFP calculations.

On March 7, 1996, the Commission rescinded RAO 20.[1] RAO 20 had required us to reduce rate base for certain Postretirement Benefits Other Than Pensions (OPEB). Because RAO 20 was rescinded, we recalculated our rate base to not include OPEB. This recalculation affected the amounts required to be shared with ratepayers.

AT&T, MCI and Sprint each state that they do not understand how we computed the RAO 20 amounts or the final 1994 sharing.[2] AT&T incorrectly projects that the 1994 rate base amount attributable to the RAO 20 rescission for Nevada is $1.550 million (AT&T Appendix B-2). MCI also incorrectly calculates the sharing impact to be $295,000 (MCI p.5). While we do not normally note each item used to calculate the sharing amounts, in order to make clear the RAO 20 effect, we provide Attachment 1 showing the 1994 sharing impact as a result of the rescission of RAO 20. This

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1 Responsible Accounting Officer Letter 20, Uniform Accounting for Pension Benefits other than Pensions in Part 32; amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base, AAD 92-65, Memorandum Opinion and Order and Notice of Proposed Rulemaking, released March 7, 1996.

2 Our filing contained all required support and documentation for this calculation. There is no specific requirement to submit additional support workpapers for sharing calculations in the TRP.

attachment shows the actual difference for the 1994 rate base $1.731 million[3] and the 1994 sharing difference is $497,589.

Contrary to AT&T's allegation, no waiver or other procedural motion is necessary for us to recalculate our sharing amounts. Sharing is calculated based on the earnings of the reporting period, and may be recalculated based on changes in those earnings. It is not an exogenous cost amount for which a waiver or petition is needed.

Form FCC 492A reports the interstate earnings and sharing obligation. Section 65.500(d) of the Commission's rules, cited by MCI (P.6.), simply requires LECs to adjust reported earnings within 15 months of the end of the year.[4]

Sprint asks the Commission to not allow us to incorporate the changes to sharing until after the Commission considers and rules upon the pending NPRM on accounting for OPEBs (p.4-5). The Commission has no authority to do this since Section 65.830 of the Commission's rules (47 CFR) only allows unfunded pension benefits to be deducted from the rate base. Sprint's approach would have us violate the Commission's Part 65 rules in our accounting treatment. The Commission has no basis to waive this rule, and no public interest would be served by doing so.

Further, the Order and NPRM makes clear that the Bureau exceeded its authority in issuing the RAO letter instructing us to adjust rate base for the OPEB amounts.

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3 This discrepancy is attributable to AT&T's assumption that the total change from the initial Form 492A to the final Form 492A was due to RAO 20 issues. This is untrue.

4 Clearly the sharing calculations for 1994 and 1995 may be reconfigured based on the change in earnings due to the RAO 20 rescission. The final Form 492A report for 1994 had not yet been issued, and therefore, even under MCI's view, are properly recalculable.

Adverse consequences must not be allowed to flow from such an illegal directive. We must be allowed recompense for the correct rate base in accordance with the Commission's own rules.

Contrary to characterizations made by AT&T, there is no retroactive ratemaking involved in the recalculation of sharing amounts for past years. The Court of Appeals recently faced this question when presented with arguments that compelling add back to adjust past earning levels in years where a carrier has shared was tantamount to retroactive ratemaking. The Court disagreed with this argument, holding that "the sharing rules draw upon the 'antecedent facts' of a local exchange carrier's prior earnings and sharing obligations...in establishing the local exchange carrier's sharing obligation for the next period. A regulation is not made retroactive "merely because it draws upon antecedent facts for its operation."[5] Thus the recalculation of sharing dollars based on changes to the antecedent facts upon which sharing is based affects only prospective earnings and is not retroactive ratemaking.

The rescission of RAO 20 and subsequent recalculation of sharing obligations does not, and should not, affect the BFP calculation. MCI and AT&T claim that if LECs are allowed to include the effects of RAO 20 on PCIs, then the BFP revenue requirement should similarly increase (MCI p.6, AT&T p.9). However, BFP is based on forecasted budget and demand projections and is different from the sharing calculation which is based on historical earnings for a period of time. BFP revenue requirement is a forward-looking interstate revenue requirement estimate for the period July 1, 1996 to June 30,

---

5 Bell Atlantic v FCC, 79 F.3d 1195, 1206 (DC Cir. 1996)

1997. BFP revenue requirement is a component of the monthly End User Common Line Charge (EUCL) calculation. We calculated that revenue requirement conservatively on the basis of the FCC's proposed treatment in the NPRM. Using the conservative approach in the EUCL calculation does not harm the carriers because Nevada Bell has priced its Carrier Common Line (CCL) rate $2.5 million below the cap and the impact on the EUCL charge is only $104,000.

WE COMPUTED THE ADD BACK OF SHARING CORRECTLY BASED ON 50 PERCENT OF THE 1994 EARNINGS, AND 50 PERCENT OF THE 1995 EARNINGS.

AT&T and MCI state that we have incorrectly calculated our addback obligations. We accurately calculated our addback obligation based on 50 percent of both the 1994 and 1995 sharing obligations. We are including a revised Exhibit 9B to more clearly display our addback calculations.

REGULATORY FEES

Sprint states that the basis for the interstate price cap regulatory fees is the "R" value. This is not appropriate for Nevada Bell for two reasons. The first is that Nevada Bell takes a conservative approach by forecasting the regulatory fee exogenous cost changes based on the difference in historical fees paid to the FCC. The 1996/1997 exogenous amount included in Nevada Bell's filing is the difference between the 1995 regulatory fees paid to the FCC of $61,385 and the amount previously included as exogenous of $14,930. Nevada Bell chose not to make a mid-year filing, but rather to include the impact of the annual September payment in its annual filing. Secondly, the reason why using the growth in the "R" value alone as the basis for the regulatory fees is not appropriate, is that not all regulatory fees are assessed based on revenue. CC Domestic Public Fixed Radio and Wireless Public Mobile Radio fees are assessed based on call signs and units respectively and the level of the fees increased for these between 1995 and 1994.

Sprint is correct, however, in its claim that Nevada Bell has overstated its regulatory fee exogenous costs. Nevada Bell inadvertently included the total increase between the regulatory fee paid in 1995 and the amount previously included as exogenous rather than just the interstate price cap portion of the fees as determined by a percent of price cap to non-price cap revenues. In addition, Nevada Bell will allocate the fee proportionately to the price cap baskets using the price cap revenue as an allocator consistent with the Commission Order regarding this issue released October 7, 1994,[6] rather than on the Part 69 General Support Facilities allocator. Nevada Bell will, therefore, reduce its 1996 Annual Access Tariff filing exogenous costs for regulatory fees by $2,992. See Attachment 2.

Nevada Bell will also decrease the TRS exogenous cost by $597 to exclude the non-price cap portion of the obligation. See Attachment 3.

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6 Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act, Order, released October 7, 1994.

CONCLUSION

For the reasons stated herein, the Petitions to Reject, or in the Alternative to Suspend and Investigate Nevada Bell's 1996 Annual Access Tariff filing should be denied.

Respectfully submitted,

NEVADA BELL

APRIL J. RODEWALD

645 E. Plumb Lane
Reno, Nevada 89502
(702)333-3138

MARGARET GARBER

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202)383-6472

Its Attorneys

Attachment 1
Proposed 5/13/96

NEVADA BELL
IMPACT OF RAO 20 RATEBASE TREATMENT ON SHARINGS
for the 1996 Annual Filing

Ln #	Description	Source	Whole Dollars	
1	Total OPEB	Acct 4310.9 less 1410	5,356,646	
2	Interstate Factor		32.3211%	
3	Interstate OPEB	Ln 1 x Ln 2	1,731,325	
4	Composite ROR	(17.25 +13.25)/2	15.25%	
5	Shared Earnings	Ln 3 x Ln 4	264,027	
6	Tax Gross Up	1+(.35/(1-.35))	1.5385	
7	Shared Earnings with Tax	Ln 5 x Ln 6	406,195	
8	Interest Rate		11.25%	
9	Interest 1st Year	Ln 7 x Ln 8	45,697	
10	Interest 2nd Year	Ln 7 x Ln 8	45,697	
11	Sharing to customer at 100%	Ln 7 + Ln 9 + Ln 10	497,589	(Note 1)

Note 1: Reduction to sharing as a result of the rescinding of RAO 20

NEVADA BELL
1995 ADD-BACK REVENUE
for the 1996 Annual Filing

	492A TOTAL	50% of 492A	CCL	TS	TRUNKING	IX
JAN-JUN 1995						
1993 Sharing	2,953,504	1,476,752	515,866	443,197	515,068	2,622
1992 True-up	(654,876)	(327,438)	(122,699)	(97,566)	(106,665)	(509)
JUL-DEC 1995						
1994 Sharing	3,374,653	1,687,327	598,562	530,447	555,527	2,792
1993 True-up	128,922	64,461	22,202	17,685	24,466	109
TOTAL 1995 Add-back	5,802,203	2,901,102	1,013,930	893,762	988,396	5,014
1995 Revenue prior to add-back		50,699,938	18,036,410	15,956,558	16,650,845	56,125
Total Revenue including add-back		53,601,040	19,050,340	16,850,320	17,639,241	61,139

Attachment 2
Proposed 5/13/96

NEVADA BELL
FCC REGULATORY FEES
for the 1996 Annual Filing

CALCULATION OF EXOGENOUS REGULATORY FEES

Ln#	Description	Source		Whole Dollars
1	1994 Booked Interstate Revenues	1994 FCC 431		52,549,551
2	1994 Regulatory Fee Rate	1994 FCC 431		0.00088
3	CC Local Exchange Carrier	Ln 1 x Ln 2		46,244
4	CC Domestic Fixed Radio (108 call signs x $140)			15,120
5	Wireless - Public Mobile Radio (140 units x $.15)			21
6	Total 1995 Reg Fees Subj to Exog Treatment	Lns 3.5		61,385
7	1995 Normalized Price Cap Interstate Revenues		53,297,059	
8	1995 Normalized B&C Revenues		2,086,878	
9	1995 Excluded Services Revenues	1995 FCC 492A	510,243	
10	1995 Normalized Price Cap Revenues	Ln 7-8-9	50,699,938	
11	Price Cap to Total Interstate Revenue Ratio	Ln 10/Ln 7		95.13%
12	Price Cap portion of FCC Regulatory Fees	Ln 6 x Ln 11		58,393

DISTRIBUTION OF EXOGENOUS REGULATORY FEES

Basket	1995 Normalized Price Cap Revenues	Distribution	Price Cap FCC Reg Fees	1995 Exog Reg Fees	Revised 1996 Exog Reg Fees	Original 1996 Exog Reg Fees	Difference
Carrier Common Line	$18,036,410	35.57%	$20,773	$7,705	$13,068	$24,090	($11,022)
Traffic Sensitive	15,956,558	31.47%	18,378	2,128	16,250	6,504	9,746
Trunking	16,650,845	32.84%	19,176	5,097	14,081	15,860	(1,779)
Interexchange	56,125	0.11%	65	0	65	1	64
Total Interstate Price Cap	$50,699,938	100.00%	$58,393	$14,930	$43,463	$46,456	($2,992)

Attachment 3
Proposed 5/13/96

NEVADA BELL
IMPACT OF PRICE CAP REVENUES ON TRS OBLIGATIONS
for the 1996 Annual Filing

Ln #	Description	Source	Whole Dollars
1	1995 Booked Interstate Revenues	95 FCC 431	53,475,879
2	1995 Booked B&C Revenues	Acct 5270.1	2,086,878
3	1995 Excluded Services	95 FCC 492	510,243
4	1995 Booked Price Cap Revenues	Ln 1-2-3	50,878,758
5	1995 TRS Contribution Rate	95 FCC 431	0.00023
6	1995 TRS Contribution Associated with Price Cap Rev	Ln 4 x Ln 5	11,702
7	Prior TRS Obligation (1994)	94 FCC 431	15,765
8	Proposed Exogenous Change in Reg Fees	Ln 6 - Ln 7	(4,063)
9	Exogenous in Original 1996 Annual Filing		(3,466)
10	Difference	Ln 8 - Ln 9	(597)

CERTIFICATE OF SERVICE

I, MaryAnn Slayton, do hereby certify that copies of the foregoing Opposition to Petitions to Reject, or Alternatively Suspend and Investigate were served to the parties indicated on the attached Service List by hand or by first-class United States mail, postage prepaid, on this 13th day of June, 1996.

MaryAnn Slayton

MaryAnn Slayton

Nevada Bell
645 E. Plumb Lane, Room B234
Reno, Nevada 89520

NEVADA BELL SERVICE LIST

Regina Keeney
Chief, Common Carrier Bureau
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, D.C. 20554

Kathleen Levitz
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, D.C. 20554

James Schlichting
Chief, Competitive Pricing Division
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, D.C. 20554

Judy Nitsche
Federal Communications Commission
Room 514
1919 M Street, N.W.
Washington, D.C. 20554

Dan Abeyta
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, D.C. 20554

John Scott
Competitive Pricing Division
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, D.C. 20554

Ann Stevens
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, D.C. 20554

International Transcription Service
1919 M Street
Washington, D.C. 20554

Mark C. Rosenblum
AT&T Corporation
295 North Maple Avenue
Room 3244J1
Basking Ridge, NJ 07920

Don Sussman
MCI Telecommunications Corporation
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Leon M. Kestenbaum
Sprint Communications Company, L.P.
1850 M St., N.W., Suite 1110
Washington, D.C. 20036

EXHBIT 3

MAY 1 3 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of 1996 Annual Access Filings Pacific Bell Revisions to Tariff FCC. No. 128	Transmittal No. 1864

RESPONSE OF PACIFIC BELL TO PETITIONS TO REJECT, OR SUSPEND AND INVESTIGATE

MARLIN D. ARD
NANCY C. WOOLF

140 New Montgomery Street, Rm. 1523
Fifteenth Floor
San Francisco, California 94105
(415) 542-7657

MARGARET GARBER

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Attorneys for Pacific Bell

Date: May 13, 1996

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SUMMARY

Our rates should be allowed to go into effect as proposed. We were justified in including the amounts previously excluded from the rate base in our sharing calculations for 1993, 1994, and 1995. Those amounts are properly included because they represent costs that should have been included in the rate base during those years. The Commission's rescission of RAO 20 allowed us to properly include those sums.

Our Base Factor Portion calculation is also justified. The changes made by the rescission of RAO 20 have no effect on previous calculations of BFP since that rate-of return based ratemaking calculation is done separately year by year with no carry over in rates between years. Also, the budget view we used to calculate the 1996-97 BFP is appropriate and yields a more accurate and true result than the tortured "trending" suggested by AT&T.

The add-back of sharing calculation is very complex because of the uneven tariff periods in 1995. While our initial filing illustrated a reasonable approach to that calculation, we have computed a more accurate way to figure the appropriate add-back number. We should be allowed to include this calculation in our July 1, 1996 rates.

Despite Petitioners' views, we have appropriately distributed sharing dollars on a cost-causative basis. We did find an error in the way our exogenous costs were calculated for TRS funding and Regulatory Fees. We include proposed Workpapers with the changed amounts. These minor changes are de minimus.

RECEIVED

MAY 1 3 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of 1996 Annual Access Filings Pacific Bell Revisions to Tariff FCC. No. 128	Transmittal No. 1864

**RESPONSE OF PACIFIC BELL
TO PETITIONS TO REJECT, OR SUSPEND AND INVESTIGATE**

Pacific Bell hereby responds to the Petitions to Reject, or in the Alternative to Suspend and Investigate filed by AT&T, Sprint and MCI. The objections center on calculations relating to RAO 20, the Base Factor Portion revenue requirement, add-back of sharing, distribution of sharing among baskets, and TRS/Regulatory Fees. While we acknowledge some minor revisions are necessary to our annual filing, we do not agree with Petitioners' claims.

All three carriers take issue with how the recent rescission of RAO 20 affects the rates filed in the 1996 annual filing. MCI (p. 5), AT&T (p. 4) and Sprint (p. 3) all claim that we did not adequately justify our inclusion of the amounts added back to the rate base as a result of the rescission of RAO 20. In addition, AT&T argues that we should not have included an exogenous cost adjustment without prior Commission approval. AT&T also alleges that we failed to include the effect of RAO 20 rescission on our historical SLC and CCL rates and common line basket caps. (AT&T, p. 12)

On March 7, 1996, the Commission rescinded RAO 20.[1] RAO 20 had required us to exclude certain Postretirement Benefits Other Than Pensions (OPEBs) from our rate base. Because the Commission rescinded the Bureau's RAO 20, we recalculated our rate base to include these amounts. This recalculation affected the amounts we were required to share with ratepayers.

AT&T (p. 7) states that they don't understand how we computed the RAO 20 amounts and recomputed sharing. AT&T incorrectly claims that the 1994 sharing amount attributable to the RAO 20 rescission for Pacific Bell is $16 million (AT&T Appendix B-2). MCI also incorrectly calculates the 1994 sharing impact (MCI p. 5.) While Commission rules do not require us to specifically display each line amount used to compute our sharing results, in order to make the record clear, the year by year sharing impact as a result of the rescission of RAO 20 is shown on Appendix A. This exhibit shows the actual difference in 1994 sharing is about half of AT&T's value, or $8.3 million.

Contrary to AT&T's allegation (p. 5), no waiver or other procedural motion is necessary for us to recalculate our sharing amounts. Sharing is calculated based on actual earnings and may be recalculated based on changes in those earnings. It is an exogenous cost

[1] Responsible Accounting Officer Letter 20, Uniform Accounting for Pension Benefits other than Pensions in Part 32; amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base, CC Docket No. 96-22, Memorandum Opinion and Order and Notice of Proposed Rulemaking, released March 7, 1996 ("Order and NPRM").

item for which Section 61.45(d)(2) of the Commission's Rules already provides. No additional procedural vehicle is necessary.

Section 65.600(d) of the Commission's rules, cited by MCI (p.6.) simply requires LECs to adjust reported earnings within 15 months of the end of the year.[2] That section does not restrict the calculation of sharing amounts to that 15 month period. The Commission, in one of its early Price Cap orders explained that "The LEC filing will also reflect any prospective rate adjustment that arises due to the operation of the sharing requirements."[3] No limit is placed on the adjustment, and none should be inferred. Indeed, none of the Petitioners cited any rule regarding a limitation on this calculation.

In addition, the responsibility for the amount of time between issuance of RAO 20 (May 4, 1992) and its rescission (by order dated March 7, 1996) lies not with us, but with the Commission. Timely Applications for Review were filed in 1992. The Commission took no action on them for nearly 4 years. That delay should not prejudice our rights to make a "prospective rate adjustment that arises due to the operation of the sharing requirements."[4]

Sprint (pp. 4-5) asks the Commission to not allow us to incorporate the changes to sharing until after the Commission considers and rules upon the pending NPRM on ratemaking for OPEBs. Sprint's approach would have us violate the Commission's Part 65 rules in our

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[2] Clearly the sharing calculations for 1994 and 1995 are able to be refigured based on the change in earnings due to the RAO 20 rescission. The final Form 492 reports had not yet been issued, and therefore, even under MCI's view, are properly able to be recalculated.

[3] Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786 (1990) at 288.

[4] Id.

ratemaking treatment.[5] The Commission has no basis to waive this rule, and no public interest would be served by so doing. To the contrary, we would be irreparably injured if we were not allowed to make the changes in our sharing calculations. We would be returning monies through the sharing mechanism not required by the Rules. Furthermore, the sharing exogenous costs are only temporary adjustments to our PCIs and will be eliminated from the PCIs in the 1997 Annual Filing.

Further the Order and NPRM makes clear that the Bureau exceeded its authority in issuing RAO 20 instructing us to remove OPEB amounts from our rate base. Adverse consequences must not be allowed to flow from such an unlawful directive. If we are not allowed recompense for the amounts that were illegally excluded from our rate base, this type of improper rulemaking will be reinforced.

Contrary to characterizations made by AT&T (p. 10), there is no retroactive ratemaking involved in our recalculation of sharing amounts for past years. We are merely correcting our indices on a prospective basis. The Court of Appeals recently faced this question when presented with arguments that compelling add-back to adjust past earning levels in years where a carrier has shared was tantamount to retroactive ratemaking. The Court disagreed with this argument holding that "the sharing rules draw upon the 'antecedent facts' of a local exchange carrier's prior earnings and sharing obligations...in establishing the local exchange carrier's sharing obligation for the next period. A regulation is not made retroactive "merely

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[5] Section 65.830 of the Commission's Rules allows the interstate portion of unfunded accrued pension costs to be deducted from the rates. All other expenses in Account 4310 must be included in the rate base under Section 65.820 of the Commission's rules.

because it draws upon antecedent facts for its operation."[6] Thus recalculation of sharing dollars based on changes to the antecedent facts upon which sharing is based affects only prospective earnings and is not retroactive rulemaking.

I. THE HISTORICAL BFP WAS APPROPRIATELY CALCULATED EVEN GIVEN THE RAO 20 RESCISSION

The rescission of RAO 20 and subsequent recalculation of sharing obligations does not, and should not, affect the historical Base Factor Portion calculation. MCI (p. 6) and AT&T (pp. 9-10) claim that if LECs are allowed to include the effects of RAO 20 that benefit them, they should not ignore other potential impacts. They argue that by including these amounts in the rate base, the BFP should consequently increase (and the CCLC that they pay decrease). But BFP is based on forecasted cost projections while our sharing calculations are based on historical earnings.

Petitioners claim that if the RAO 20 corrections are permitted for price cap rates that adjustments should be made to End User Common Line ("EUCL") rates for past annual filings due to increases in the BFP. But BFP, based on forecasted cost projections, and sharing calculations, based on historical earnings for a period of time, are two different animals. The Commission has upheld this distinction. EUCLs are based on our BFP determined from "bottoms up" cost forecasts. Each year's EUCL is independent of the prior year's EUCL. There is no carry forward effect like in price cap rates. Thus, different treatment is warranted.[7]

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[6] Bell Atlantic v. FCC, 79 F.3d 1195 (DC Cir. 1996).

[7] See, for example, letter dated December 7, 1994 to Sherry Herauf from Jose-Luis Rodriguez concerning the lobbying cost audit in which the Commission required us to adjust our PCIs by

II. ADD-BACK OF SHARING

Both AT&T (p.11) and MCI (p. 7) state that we have incorrectly added back sharing amounts in calculating our 1995 rate of return. They claim that the add-back should be based on 50% of our 1994 earnings, and 50% of our 1995 earnings.[8] The add-back adjustment, known as normalization, describes a process:

> that eliminates the effects of sharing or low-end adjustments required by the prior year's earnings on the current year's earnings. The process requires a price cap LEC to add an amount equal to the sharing adjustment amount to its current year revenues before calculating a LEC's rate of return for the current year.[9]

The 1995 (calendar) year's rate of return is a function of the access rates from the 1994 and 1995 annual filings. The 1994 rates were effective from January through July 1995; the 1995 rates from August through December 1995.[10] Our add-back calculations were based on 7/12 of 1994[11] earnings and 5/11 of 1995 earnings.[12] As the Petitioners state, the calculation was complicated

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approximately $300,000, but did not require any corresponding adjustment to our EUCL ratemaking. *Accord*, Pacific Bell, AAD 93-150, Order to Show Cause (March 3, 1995) (NECA Audit), requiring PCI adjustments, but no adjustment to rate-of-return based rates.

[8] AT&T (at n. 25) cites para 25 of the 1996 TRP Order as authority for using a 50/50 add-back formula. That citation pertains to the calculation of the sharing threshold not the add-back.

[9] Price Cap Regulation of Local Exchange Carriers: Rate of Return Sharing and Lower Formula Adjustment, 10 FCC Rcd 5656 (1995) at 13.

[10] In what follows, the terms 1994 earnings and 1995 earnings have the meaning given by AT&T and MCI; specifically 1994 earnings are the sharing amounts given back to ratepayers in rates effective July 1, 1994 and 1995 earnings are the sharing amounts returned to ratepayers in rates effective August 1, 1995.

[11] Because earnings are based on a calendar year, and the rates that affect those earnings, take effect mid-year.

[12] MCI and AT&T both incorrectly state that it was based on 5/12 of our 1995 earnings.

by the Commission's deferral of the effective date of the 1995 annual filing until August 1995. Rather than trying to "game the regulatory process," Pacific was trying to accurately represent what was actually returned to the ratepayers through reduced rates in 1995.

Upon reflection, Pacific agrees that AT&T and MCI may have a point concerning the return of the 13th month (July 1995) of the 1994 sharing. However, AT&T and MCI erroneously conclude that the resulting add-back should be 50% of the 1994 earnings and 50% of the 1995 earnings. Instead, Pacific now proposes that the 1995 add-back calculation should be refined as follows:

(7/12 x 1994 earnings) - (5/11 x 1/12 x 1994 earnings) + (5/11 x 1995 earnings)[13]

which reduces to: (6/11 x 1994 earnings) + (5/11 x 1995 earnings)

The first element above (7/12 x 1994 earnings) reflects the rates that were in effect from January 1, 1995 through July 31, 1995. Those rates were designed to share with ratepayers 1/12 of the 1994 earnings each month. Due to the delay of the effective date for the 1995 rates to August 1, those rates were in effect seven months, hence, the add-back must include 7/12 of 1994 earnings instead of 6/12 of 1994 earnings.

The second element above (5/11 x 1/12 x 1994 earnings) reflects the actual revenue effect of the PCI gross up adjustment the Commission ordered to account for the extra (13th) month of 1994 earnings returned in July 1995 due to the delay in implementing 1995 rates.[14] That amount was included in the 1995 rates that were in effect from August 1, 1995

[13] A chart explaining this formula is attached as Appendix B.

[14] Revisions to Price Cap TRP and Order, 10 FCC Rcd 5720 (1995) para 18-21.

through June 30, 1996. Consequently, for five months of the 1995 calendar year (August through December), Pacific's rates included the return of 1/11 of one month's worth of 1994 sharing.

The final element above (5/11 x 1995 earnings) reflects the 1995 earnings that were returned to ratepayers through reduced rates from August 1995 through December 1995 (five months.) Those rates returned 1/11 of the 1995 earnings each month because of the PCI gross up adjustment designed to be in effect for only eleven months through June 1996.

Pacific believes that the above formula captures what effect its sharing adjustments for the prior years' earnings had on its 1995 earnings. Using the formula above decreases Pacific's 1995 rate of return to 15.11% from 15.12%. This decreases our 1995 sharing liability by $104K from our initial submission (see Appendix C with proposed Workpaper IIC-6).

III. DISTRIBUTION OF SHARING

AT&T (p. 24) and Sprint (p. 6) again take issue with the way we distributed our sharing amounts in that we excluded EUCL revenue from the base period revenue used to distribute sharing among the baskets.

Price Cap LECs may allocate sharing among the baskets on any "cost causative basis."[15] The Commission has expressly declined to "specify a particular method of reflecting 'cost causation.'"[16] In its order on the 1992 annual access tariffs, the Bureau did sanction one

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[15] 47 C.F.R. §61.45(d)(4).

[16] Policy and Rules Concerning Rates for Dominant Carriers, 6 FCC Rcd 2637 (1991) para. 113.

particular cost-causative allocation method, observing that "basket revenues can be used as proxy for basket costs."[17] But it did not rule out all other methods and it properly avoided revising or adding to the price cap rules in the course of deciding the justness and reasonableness of specific tariffs. It violates no Commission rule or policy to allocate sharing to the common line basket based on carrier common line revenues. Since EUCL charges are not even developed using price cap methods, sharing will never be reflected in these rates. It is therefore cost-causative to use carrier common line revenues without EUCLs as a proxy for common line costs.

IV. BFP REVENUE REQUIREMENT

AT&T (p. 27) and MCI (p. 8) claim that Pacific has underforecast its Base Factor Portion (BFP).[18] The rules do not specify a particular approach to projecting this revenue requirement. Pacific's approach is to do a bottoms up view of total company costs to yield a subject to separations amount. That amount is multiplied by various factors to produce an interstate BFP. This approach is one Pacific has used for many years, and which, since price caps began, AT&T has never before questioned. AT&T's suggested approach is to look at just a year over year analysis of 1994 and 1995 based on ARMIS data, and project that growth to a 1996-97 basis.

There are three main reasons why the 1996-97 "forecast" cannot be based on differences between the 1994-1995 results cited by AT&T. First, the costs cited by AT&T don't

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[17] 1992 Annual Access Tariff Filings, 7 FCC Rcd 4731, 4732, n.4 (1992).

[18] Appendix D shows a new Workpaper IVC-1 which revises the final 1995 base year and corrects a typographical error in the 1996-97 forecast.

reflect comparable rules (e.g. RAO 20) in all periods. Second, extraordinary costs (e.g. restructuring) may be incurred in one period that are not representative of the future. Third, the mix of costs by account changes over time--different accounts have significantly different BFP separations factors (3% to 13%).

Using the difference between two historical periods to prepare a forecast does not allow for a true trend to be depicted. Two data points do not a valid sample make. Anomalies of a particular year will be given more weight than they should. In particular, the 1994 base AT&T uses does not include the recission of RAO 20's ratemaking provisions with respect to OPEB-related amounts in Account 4310. The 1995 rate base does include the effect of the RAO 20 recission. Hence, the 1994 BFP is understated for this issue by $7.3M in revenue requirement as compared to 1995. See Appendix E.

Further, 1995 restructure reserve expenses are much higher than in 1994, a "trend" that is not expected to continue into the future.[19] The 1994 restructure reserve expenses were $285M while in 1995 Pacific booked nearly $570M of restructure reserve expenses.[20] Approximately 10% of these expenses went to BFP, meaning that $28M of the increase in revenue requirement between 1994 and 1995 can be attributed to this singular event. Trying to form a trend analysis based on just two years, especially when neither of those years are representative of the future, will not produce an appropriate forecast.

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[19] In 1993, Pacific booked $1.6B to a restructure reserve (of which about $0.6B was for SFAS 106 curtailment losses) below the line to recognize future expenses for reengineering, force reductions, etc. Per RAO 24, Pacific is recognizing those expenses above the line in the years in which they are incurred.

[20] The RAO 20 recission and the extraordinarily high restructure reserve expenses in 1995 also partly explain why our BFP forecast for 1995-96 fell short of the mark. Neither event was included in our forecast.

Our "bottoms up" approach is more reasonable and more accurately forecasts the revenue requirement. Appendix E compares the 1995 subject to separations expense levels against the 1996-97 tariff period budget. There are two items worth noting. First, the 1996-97 budget for total expense increases by $90M (1.4%) over 1995. Embedded in the 1996-97 budget is $355M for restructure reserve bookings (as compared to $570M in 1995). Without the variance in restructure reserve bookings, the 1996-97 total expenses would be 4.8% higher than 1995 actual expenses.

Second, types of expenses change over time. Generally, plant related expenses and corporate expenses are forecasted to decrease (net -$128M) while customer service expenses are forecasted to increase ($220M). The plant specific expense levels are being driven by the completion of reengineering efforts designed to drive costs out of the business. These expense categories all carry BFP ratios greater than 9.61%. Customer service expense levels are being driven by reengineering efforts yet to be completed as well as a focus on customer service as we move into an increasingly competitive environment. Customer services carry a BFP ratio of only 2.79%. So, the costs in categories with higher interstate factors are decreasing, while the costs in categories with significantly lower separations factors are increasing Thus, despite increases in subject to separations expenses, BFP expenses will decline.

Another issue in our BFP projection concerns the rate base. In making our best estimate of the 1996-97 BFP revenue requirement, we have assumed that the Commission will reinstitute the ratemaking treatment for SFAS 106 related costs booked to Account 4310. While we respectfully disagree with the Commission on this treatment, we have no reason to believe that the Commission will act otherwise.[21] Reducing our 1996-97 rate base by the OPEB amounts in Account 4310 reduces our 1996-97 BFP revenue requirement by $19.87M. See Appendix G.

V. TRS/REGULATORY EXOGENOUS COSTS

Sprint (p. 7) claims that our TRS exogenous cost is incorrectly based on more than just interstate price cap revenues. Sprint is correct, however Sprint has not calculated the right amount either. We neglected to exclude presubscription revenues from our calculation of TRS and Regulatory exogenous costs. Sprint used line 160 of Form PCI-1 to figure the fees. However, line 160 reflects the 1995 rates times the 1995 volumes. TRS and Regulatory fees are to be based on actual revenues. Form 431 and the TRS fund worksheet are the appropriate sources for this data.

Using those sources, adjusted to exclude non price cap revenues, the TRS exogenous costs should have been $12K lower, and the Regulatory exogenous cost should have been $20K lower. Revised workpapers are attached at Appendices H and I. There is no rate effect since the amounts are *de minimus*.

---

[21] In the Order and NPRM vacating the ratemaking treatment prescribed by RAO 20, the Commission made clear: "In ordering such rescission, we base our action solely on procedural grounds, and render no decision on the substantive merits of the ratemaking practices at issue....Under our proposals, we would require the removal from the rate base of all items recorded in Account 4310 because we believe that these amounts are zero-cost sources of funds." Order and NPRM, paras 27, 34.

Pacific Bell
Impact of Vacating Ratemaking Instructions in RAO 20 re Account 4310 Related to SFAS 106

Ln	Description	Source	1993	1994	1995
1	Account 4310 related to SFAS 106, Subject to Separations	Records	285,042,758	354,743,146	404,151,746
2	Interstate Factor	Records	18.03%	18.39%	19.02%
3	Interstate 4310 (SFAS 106 related)	Ln 1 x Ln 2	51,405,978	65,229,460	76,862,792
4	Return @ 12.25%	Ln 3 * 12.25%	6,297,232	7,990,609	9,415,692
5	Tax Factor	Records	1.696209	1.696209	1.696209
6	Revenue Requirement @ 12.25%	Ln 4 x Ln 5	10,681,422	13,553,743	15,970,981
7	50% Sharing	Ln 6 x 50%	5,340,711	6,776,871	7,985,491
8	Half year reduction	Ln 7 / 2	-	-	3,992,745
9	Reduction in Sharing Liability Principal	Ln 7 - Ln 8	5,340,711	6,776,871	3,992,745
10	Interest @ 11.25% per year	Ln 9 x 11.25% x Yrs	1,802,490	1,524,796	449,184
11	Reduction in Sharing Liability Including Interest	Ln 9 + Ln 10	7,143,201	8,301,667	4,441,929

Appendix A

VI. CONCLUSION

With the changes suggested herein, our rates should be allowed to go into effect as filed. Petitioners have not raised any issues which justify a rejection, or a suspension of rates.

Respectfully submitted,

PACIFIC BELL

Nancy C Woolf

MARLIN D. ARD
NANCY C. WOOLF

140 New Montgomery Street, Rm. 1523
Fifteenth Floor
San Francisco, California 94105
(415) 542-7657

MARGARET GARBER

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Its Attorneys

Date: May 13, 1996

PACIFIC BELL
WORKPAPER IIC-6

1995 SHARING REQUIREMENT

($000s)

1995 Calendar year results (Source: FCC Form 492A)

1.	Operating income incl addback (see Note 1)	Form 492A, Item 3, Ln 3	370,455
2.	Rate Base	Form 492A, Item 3, Ln 4	2,451,590
3.	Rate of return	Line 1 / Line 2	15.11%
4.	1994 earnings at 12.25% rate of return	Line 3 x .1225	300,320
5.	Earnings subject to sharing	Line 1 - Line 4	70,136
6.	Earnings required to be shared	Line 5 x 50%	35,068
7.	Earnings to be shared adjusted for half-year	Line 6 / 2	17,534
8.	Tax gross-up factor	See Note 2	1.696209
9.	Sharing revenue requirement	Line 7 x Line 8	29,741
10.	Interest at 11.25%	Line 9 x .1125	3,346
11.	Total sharing requirement	Line 9 + Line 10	33,087

PACIFIC BELL
WORKPAPER IIC-6

1995 SHARING REQUIREMENT

($000s)

Note 1 Addback calculation:

1994 Tariff period sharing revenue	
1992 sharing adjustment	(4,010)
1993 sharing	13,884
Total	9,874
Amount shared in 1995. Tariff period sharing x 6/11	5,386
1995 Tariff period sharing revenue	
1993 sharing adjustment	991
1994 sharing	69,452
Total	70,443
Amount shared in 1995 (Aug 95 - Dec 95). Tariff period sharing x 5/11	32,020
1995 calendar year shared revenue	37,405
Net income adjustment (1- composite tax rate of 41.045%)	0.589550
1995 net income reduction due to sharing	22,052

Note 2 Tax gross up factor is based on Federal Income Tax rate = 0.35 and State Income Tax rate = 0.093. The composite tax factor = 0.093 + (0.35 * (1 - 0.093)) = 0.41045. The gross up factor = 1 + (0.41045 / (1 - 0.41045)) = 1.696209.

Pacific Bell
Timeline Depiction of Calculation of 1995 Addback Amount

	J	F	M	A	M	Jn	Jl	A	S	O	N	D	Total 95
1	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94	1/12 x 94						7/12 x 94
2								-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-1/11x(1/12 x 94)	-5/11 x (1/12 x 94)
3								1/11 x 95	1/11 x 95	1/11 x 95	1/11 x 95	1/11 x 95	5/11 x 95

Where,

"94" refers to the sharing liability to be returned to ratepayers in rates effective 7/1/94
"95" refers to the sharing liability to be returned to ratepayers in rates effective 8/1/95

1 reflects the return of 94 earnings in rates effective 7/1/94 designed to share 1/12 of the 94 earnings each month, extending from Jan 95 through Jul 95, seven months.

2 reflects the adjustment to return to Pacific the extra month of sharing of 94 earnings that occurred in Jul 95 because of the extension of the tariff period by one month. The amount is returned over eleven months (Aug 95-Jun 96), five of which are in calendar year 1995.

3 reflects the return of 95 earnings in rates effective 8/1/95, one eleventh each month through June 1996. Five of the tariff period months are in calendar year 1995.

PACIFIC BELL
WORKPAPER IVC-1

1996-97 TARIFF PERIOD FORECAST
BASE FACTOR PORTION REVENUE REQUIREMENT

($000s)

	1995 BASE YEAR (2)	1996/97 FORECAST	VARIANCE (4) AMOUNT	%
Revenue Requirement	878,002	855,304	(22,698)	-2.59%
Miscellaneous Income	4,920	4,923	3	0.07%
Uncollectibles	3,173	3,173	-	0.00%
Net Revenue	879,748	857,054	(22,694)	-2.58%
Total Expenses (3)	630,044	620,054	(9,990)	-1.59%
Taxes less FIT	40,152	38,865	(1,287)	-3.21%
Federal Income Taxes	50,570	49,471	(1,099)	-2.17%
Return	163,928	148,664	(15,264)	-9.31%
Average Net Investment	1,457,136	1,321,456	(135,680)	-9.31%

(1) Annual growth in revenue requirement from the mid-point of the base year to the mid-point of the tariff period (18 months) is -1.73%

(2) 1995 Base Year revised to reflect final view of 1995 results including RAO 20 rescission. Original workpaper displayed early view of 1995 data.

(3) 1996/97 Forecast Total Expenses revised. Original submission included Property Taxes on this line as well as the one below. The revenue requirement number is not affected; simply a display error.

(4) The variance amounts and percentages are restated to reflect the revisions noted in (2) and (3).

Appendix D

Pacific Bell
Impact on 1994 Interstate Base Factor Portion Revenue Requirement of Vacating Ratemaking Instructions in RAO 20 re Account 4310 Related to SFAS 106

Ln	Description	Source	Amount ($M)
1	Account 4310 related to SFAS 106, Subject to Separations	Records	354.74
2	Interstate Base Factor Portion (BFP) Ratio for Account 4310	Records	10.79%
3	Interstate BFP Account 4310 related to SFAS 106	Ln 1 x Ln 2	38.28
4	Return @ 11.25%	Ln 3 x 11.25%	4.31
5	Tax Factor	Records	1.696209
6	Revenue Requirement @ 11.25%	Ln 4 x Ln 5	7.30

Pacific Bell
Impact on 1996-97 Interstate Base Factor Portion Revenue Requirement
Resulting From Different Distribution of Expenses by Account in Budget vs Base Year
($M)

	SUBJECT TO SEPARATIONS			INTERSTATE	
	ACTUAL 1995 (A)	BUDGET 1996-97 (B)	VARIANCE (C=B-A)	BFP FACTORS (D)	VARIANCE IN IS BFP (E=CxD)
EXPENSES					
1 Plant Specific Exp (61XX-64XX)	1,287.7	913.7	(374.0)	12.56%	(47.0)
2 Plant Non-Specific (651X-654X)	752.1	941.3	189.2	11.56%	21.9
3 Marketing (661X)	417.0	411.0	(6.0)	12.86%	(0.8)
4 Services (662X)	939.0	1,158.8	219.8	2.79%	6.1
5 Corporate (67XX)	1,216.9	1,013.8	(203.1)	9.61%	(19.5)
6 Other (7370)	8.6	12.5	3.9	10.75%	0.4
7 Expense excl Depreciation (1T6)	4,621.3	4,451.1	(170.2)		(38.8)
8 FCC Expense Adjustment	#N/A	#N/A	#N/A		#N/A
9 Depreciation (656X)	1,738.9	1,999.0	260.1	10.84%	28.2
10 TOTAL EXPENSES (7T9)	6,360.2	6,450.1	89.9		(10.6)

Notes

1995 expenses include $570 related to restructure reserve and SFAS 106 curtailment loss. The 1995 level for restructure reserve bookings will be the highest of the 1994-1997 period. The 1996-97 tariff period is expected to contain only $355M of expense related to restructure reserve and curtailment loss. The 1996-97 tariff period subject to separations is only 1.4% higher than 1995. Without the variance in restructure reserve bookings, the 1996-97 tariff period would be 4.8% higher.

Plant specific, plant non-specific, depreciation and corporate expenses are down a net $127.8M. This is being driven by the completion of reengineering efforts designed to drive costs out of the business. These expense categories have an IS BFP factor of 9.6% or greater. The heaviest expense categories for IS BFP are declining in the future. On the other hand, customer service expenses are growing by $219.8M. This is a result of both reengineering efforts in the customer service arena and the growing focus on customer service as we move into an increasingly competitive environment. Services carries the lowest IS BFP factor, 2.79%. Hence, the most insignificant expense category for BFP is expected to decrease in the future.

Pacific Bell
Impact of Assuming FCC Reinstitutes Ratemaking Instructions for Account 4310 Related to SFAS 106 on 1996/97 Interstate Base Factor Portion Revenue Requirement

Ln	Description	Source	Amount ($M)
1	Account 4310 related to SFAS 106, Subject to Separations	Records	940.40
2	Interstate Base Factor Portion (BFP) Ratio for Account 4310	Records	11.08%
3	Interstate BFP Account 4310 related to SFAS 106	Ln 1 x Ln 2	104.15
4	Return @ 11.25%	Ln 3 x 11.25%	11.72
5	Tax Factor	Records	1.696209
6	Revenue Requirement @ 11.25%	Ln 4 x Ln 5	19.87

PACIFIC BELL
WORKPAPER IIC-7

ESTIMATED 1996 TELECOMMUNICATIONS RELAY SERVICE (TRS) FUND CONTRIBUTION

(Whole dollars)

Basket	Exog Cost Per 1995 Filing (a)	1996 Obligation (b)	1996 Exogenous Costs (c=b-a)
Common Line	201,881	295,182	93,301
Traffic Sensitive	72,409	101,283	28,874
Trunking	105,532	152,175	46,643
Interexchange	32	47	15
Total	379,854	548,688	168,834

(a) From Transmittal No. 1826

(b) Per Pacific's 1996 TRS Fund Worksheet (form FCC 431) to be filed with NECA in April 1996. Calculated as follows:

Interstate Access Revenue (Ln 9c) less Presubscription	1,654,806,243
Interstate Non-operator Switched Toll Svc (Ln 12c)	1,810,790
Interstate Rent Revenue (within Ln 8c)	6,074,429
Total	1,662,691,462
TRS Fund Factor (Ln 15)	0.00033
TRS payment allocated to Price Cap Baskets	548,688

Distribution to the baskets is based on the filed "R" values.

PROPOSED 5/13/96

PACIFIC BELL
WORKPAPER IIC-8

FCC REGULATORY FEE
(Whole dollars)

Basket	Remove 1994 Payment & 1995 Estimated Fee included in 1995 Exogenous Costs (a)	1996 Estimated Fee (b)	1996 Exogenous Cost (c=a+b)
Total	(2,849,140)	1,432,522	(1,416,618)
Common Line	(1,671,495)	770,667	(900,828)
Traffic Sensitive	(326,252)	264,432	(61,820)
Trunking	(851,111)	397,301	(453,810)
Interexchange	(282)	124	(158)

(a) From Transmittal No. 1803

(b) 1996 estimated fee is based on 1995 actual fee. That fee was calculated using revenues reported on FCC Form 431 (TRS Fund Worksheet) multiplied by 0.00088. Taking just the revenues from that form that are in the price cap baskets multiplied by the rate yields the following:

Interstate Access Revenue (Ln 9c) less Presubscription	1,621,104,797
Interstate Non-operator Switched Toll Service (Ln 12c)	1,076,634
Interstate Rent Revenue (within Ln 8c)	5,684,877
Total	1,627,866,308
FCC Regulatory Fee Factor	0.00088
FCC Regulatory Fee allocated to Price Cap Baskets	1,432,522

Distribution to the baskets is based on the filed "R" values.

CERTIFICATE OF SERVICE

I, Cheryl A. Peters hereby certify that on this 13th day of May, 1996 a true and correct copy of the foregoing **Response of Pacific Bell to Petitions to Reject, or Suspend and Investigate** regarding its 1996 Annual Access Filing, was served by hand or by first-class United States mail, postage prepaid to the parties shown on the attached list.

Cheryl A. Peters

Service List
Response of Pacific Bell to Petitions to Reject, or Suspend and Investigate Pacific Bell's regarding its 1996 Annual Access Filing

International Transcription *
Service (ITS)
1919 M Street, N. W.
Room 246
Washington, D. C. 20554

Leon M. Kestenbaum
Norina T. Moy
Attorneys for SPRINT
COMMUNICATIONS COMPANY, L.P.
1850 M Street, N. W.
Suite 1110
Washington, D. C. 20036

Don Sussman
Alan Buzacott
MCI TELECOMMUNICATIONS
CORPORATION
1801 Pennsylvania Ave., N. W.
Washington, D. C. 20006

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
Seth S. Gross
AT&T CORP.
295 North Maple Avenue
Room 3244J1
Basking Ridge, NJ 07920

* BY HAND

EXHIBIT 4

TP

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	**)**	
	)	
1996 Annual Access Charge Tariff Filings	**)**	

REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

ROBERT M. LYNCH
DURWARD D. DUPRE
THOMAS A. PAJDA

One Bell Center
Room 3520
St. Louis, Missouri 63101
(314) 235-2507

ATTORNEYS FOR
SOUTHWESTERN BELL TELEPHONE COMPANY

May 13, 1996

Table of Contents

In the Matter of 1996 Annual Access Charge Tariff Filings

Summary*

These Reply Comments address the arguments raised by AT&T, MCI and Sprint against SWBT's 1996 Annual Access Charge Tariff Filing. None of the arguments raised by these parties warrant any action by the Commission. Thus, SWBT's 1996 Annual Access Charge Tariff Filing should be allowed to take effect as scheduled.

The majority of the arguments raised by these parties oppose the rate base adjustments made by SWBT as required by RAO 20. The petitioners, however, provide no reason for the LECs, including SWBT, to avoid the mandate of the Rescission Order, and argue, in effect, that SWBT should continue to base its rates on an interpretation of the rules that is flatly wrong.

The petitioners further argue that even if the changes are to be allowed, they have been miscalculated by the LECs. SWBT shows herein that its calculations are accurate, and that they are supported in the record to the extent required by the Commission's rules and past practice.

Two of the petitioners also challenge SWBT's add-back figures. SWBT shows herein that its methodology more precisely calculates the correct amount of add-back.

Lastly, Sprint claims that SWBT has overstated exogenous costs for the reversal of the prior year's sharing amount by $29,684. On the contrary, SWBT's methodology is correct, and is the same as that used by Sprint's affiliated local exchange companies.

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*All abbreviations used herein are referenced within the text.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1996 Annual Access Charge Tariff Filings	)	

REPLY COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), pursuant to the 1996 TRP Order[1] hereby replies to the petitions filed against SWBT's Transmittal No. 2544 (SWBT's 1996 Annual Access Charge Tariff Filing).[2] None of the petitions filed against SWBT's 1996 Annual Access Charge Tariff Filing provide any reason for suspension and investigation, let alone rejection, and thus, SWBT's filing should be allowed to take effect as scheduled.

I. SWBT PROPERLY FOLLOWED THE RESCISSION ORDER

On March 7, 1996, the Commission released its Rescission Order.[3] In the Rescission Order, the Commission determined that the Responsible Accounting Officer Letter 20:[4]

> exceeded the Bureau's delegated authority to the extent that it directed exclusions from and additions to the rate base for which the Part 65 rules do not specifically provide. Sections 65.820 and 65.830

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[1]Support Material to be Filed with 1996 Annual Access Tariffs (released February 29, 1996) (1996 TRP Order).

[2]Petitions were filed by Sprint Communications Company, L.P. (Sprint); MCI Telecommunications Corporation (MCI); and AT&T Corp. (AT&T).

[3]Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits other than Pensions in Part 32; Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, subpart G, rate base; AAD 92-65, Memorandum Opinion and Order and Notice of Proposed Rulemaking, (FCC 96-63)(released March 7, 1996) (Rescission Order).

[4]Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, 7 FCC Rcd. 2872 (Com. Car. Bur. 1992) (RAO 20).

> of our rules define explicitly those items to be included in, or excluded from, the interstate rate base. The Bureau cannot properly address any additional exclusions in an RAO letter, which under Section 32.17 of our rules must be limited to explanation, interpretation, and resolution of accounting matters. Accordingly, the portion of RAO 20 that addresses the rate base treatment of prepayments and accrued liabilities related to OPEBs is rescinded.[5]

SWBT followed the Rescission Order in calculating its 1996 Annual Access Tariff Filing. The rate base and sharing calculation changes cause a temporary increase in price cap indexes (PCIs), reflecting a positive exogenous cost for calendar years 1993 and 1994. This exogenous cost reflects the difference between the sharing amounts for these years included in the 1994 and 1995 annual filings and the sharing amounts calculated in compliance with the Rescission Order. Because sharing for calendar year 1995 was calculated for the first time in this filing, there is no associated sharing revision.

Sprint, MCI and AT&T petition against these changes.[6] None of the claims raised by these parties warrants any action by the Commission for the following reasons.

A. No Further Commission Action Is Necessary To Allow SWBT To Make The Changes Required By The Rescission Order.

MCI argues that changes in the sharing amounts for 1993 made by SWBT are improper because Section 65.600(d) of the Commission's Rules allows local exchange carriers (LECs) to adjust their reported earnings only within 15 months of the end of the year. After that point, MCI claims, LECs need a waiver of the exogenous change rules.[7] AT&T also claims,

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[5]Rescission Order at para. 25. (footnotes omitted).

[6]Sprint at pp. 2-5; MCI at pp. 3-7; and AT&T at pp. 2-11.

[7]MCI at pp. 6-7.

according to the LEC Price Cap Performance Review Order,[8] that to implement the changes of the Rescission Order, LECs must apply for, and be granted, a waiver to request exogenous cost treatment in this tariff filing.[9]

Contrary to MCI, a Part 61 rule waiver is not required to effectuate the Rescission Order. The Part 61 rule that addresses exogenous cost treatment of sharing (47 C.F.R. 61.45(d)(2)) is not limited by Section 65.600(d). SWBT's sharing exogenous cost calculations for the years 1993, 1994 and 1995 accurately reflect the Rescission Order's required treatment of SWBT's Account 4310, Other Long-Term Liabilities, OPEB (Other Post-Employment Benefits) liability during those time periods. The Rescission Order effectively mandates a restatement of earnings and sharing for any measurement periods in which SWBT's earnings and sharing had reflected the Common Carrier Bureau's (Bureau's) improper interpretation of the Part 65 rules.

Contrary to AT&T's assertion, recalculating the sharing exogenous costs for these measurement periods, based on the correct application of the Part 65 rules, does not conflict with the Commission's decision in the LEC Price Cap Performance Review Order to limit future exogenous cost changes to "those the Commission shall permit or require by rule, rule waiver or declaratory ruling." The rule change in the LEC Price Cap Performance Review Order only applies to those types of potential exogenous costs (such as future tax law changes and other extraordinary cost changes) that have not as yet been allowed. The rule change does not affect exogenous

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[8] Price Cap Performance Review for Local Exchange Carriers, 10 FCC Rcd 8961 (1995) (LEC Price Cap Performance Review Order).

[9] AT&T at p. 6.

adjustments already acknowledged or mandated in the price cap rules (e.g., sharing) or by other Commission action (e.g., Telecommunications Relay Service Fund assessments).

AT&T also claims that the adjustments by the LECs, including SWBT, violated the "well-established rule against retroactive ratemaking."[10] Nevertheless, pursuant to Commission precedent, the adjustments are proper. Certainly no improper retroactive ratemaking argument is relevant to SWBT's 1994 and 1995 sharing calculations. No party claimed that the 1995 sharing calculation, which was calculated for the first time based on the current Commission interpretation of the rules in effect during the 1995 measurement period, is retroactive. As for the 1994 sharing true-up, MCI recognizes, when it argues that no provision exists to report earnings adjustments beyond 15 months, that a provision already exists in the Part 65 rules and the Price Cap Tariff Review Plan (TRP) requiring a true-up of 1994 earnings and sharing. Such a previous year sharing true-up has always been required to be reflected as an exogenous cost. The cause or size of the true-up adjustment is irrelevant, and the current true-up should be based on the current Commission interpretation of the rules in effect during 1994.

Sharing adjustments for years prior to 1994 that included sharing calculations affected by RAO 20 are clearly allowable given the Commission's prior requirements to adjust PCIs on a going-forward basis to correct past errors. In the 1995 Annual Access Tariff Filing some LECs were required to reduce PCIs to correct for alleged previous period lobbying expense accounting errors.[11]

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[10]AT&T at p. 4, fn. 8.

[11]1995 Annual Access Tariff Filings of Price Cap Carriers, Memorandum Opinion and Order Suspending Rates, DA 95-1631 (Com. Car. Bur., released July 21, 1995), at paras. 30-33.

In the LEC Price Cap Performance Review Order, the Commission found that a "one-time productivity adjustment" was necessary to correct for an error made by the Commission in its previous calculation of the productivity factor. Changes in PCIs were deemed necessary to correct the LECs' PCIs as if the error had not occurred.[12]

Likewise, in the Rescission Order, the Commission found that the Bureau's previous rate base instructions to the LECs were in error and should be rescinded. The sharing adjustments proposed by SWBT will allow SWBT to be in the position it would have been had the error not occurred.

AT&T supported the Commission's adjustments in the LEC Price Cap Performance Review Order. AT&T specifically noted that the adjustment required by the LEC Price Cap Performance Review Order was "purely prospective" and thus not retroactive.[13] Because the Commission, through the Bureau's RAO 20 Letter, caused a miscalculation of the rate base in prior years, sharing amounts were skewed and PCIs were improperly adjusted. The current change by SWBT only serves, on a prospective basis, to correct that error.

AT&T also noted that a "one-time adjustment does not upset Petitioners' reliance interests," claiming that since "everyone has known since 1990 that the FCC was going to conduct a performance review in 1994 to assess how well the price cap system had worked," SWBT should not have been surprised that the price cap system would change.[14] Likewise, AT&T here was on

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[12]LEC Price Cap Performance Review Order at para. 247.

[13]AT&T brief, filed October 27, 1995, before the U.S. Court of Appeals for the D.C. Circuit in Case No. 95-1217, Bell Atlantic Telephone Companies v. FCC, at p. 15.

[14]AT&T brief at p. 16.

notice that Applications for Review of the RAO 20 Letter were filed, and must have known that if the application were granted, the ratebase adjustments in question would result. To the extent that reliance interests are to be weighed in judging whether a change is fairly "retroactive," AT&T's reliance interests are not upset here.

B. SWBT's Rate Base Changes Were Correct.

MCI and AT&T claim that if the LECs are allowed to include, as additional costs, the interstate portion of accrued liabilities related to OPEBs recorded in Account 4310, other rate base changes must be made, such as a revision to the Base Factor Portion (BFP) in the common line calculations and a revision to other exogenous adjustments. For the following reasons, however, no further adjustments to SWBT's rates are necessary.

1. SWBT Correctly Calculated EUCL and CCL Rates.

AT&T argues that recognition of the Rescission Order in the development of BFP revenue requirement used in the calculation of End User Common Line (EUCL) rates would have increased BFP and would have increased EUCL rates (and lowered Carrier Common Line (CCL) rates) had the proposed multiline EUCL rates been below the $6.00 per month cap.[15] SWBT's projected BFP per line, however, was already above the $6.00 multi-line EUCL cap. Since SWBT's proposed multiline EUCL rate was already at the $6.00 cap before inclusion of the effects of the Rescission Order, the increased BFP revenue requirement per line has no effect on SWBT's proposed PCIs, EUCL or CCL rates.

Although SWBT's EUCL rates in the 1994 and 1995 tariff periods were slightly below the $6.00 cap, there is no Price Cap plan mechanism to allow a EUCL true-up via a temporary

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[15] AT&T at pp. 9-10.

going-forward EUCL increase (and a corresponding CCL decrease), particularly if the proposed EUCL is at the $6.00 cap. The effect on SWBT of such a "true-up" on EUCL and CCL rates, in any event, would not result in any net change in overall interstate revenues. Excluding the OPEB rate base reduction for Account 4310 in prior years' below-cap EUCL rate calculations (1993 and 1994) would simply have redistributed the Common Line revenue recovery between EUCL charges and CCL charges. Little or no difference in the total allowed Common Line revenue amount would result.

2. SWBT Correctly Calculated The Exogenous Cost Changes.

AT&T claims that the "added OPEB expenses would also interact with other exogenous changes . . . including (but not limited to), changes in SPF, DEM, depreciation reserve amortizations [RDA], general support facilities, and LEC sale of exchanges. Specifically, insofar as these additional costs would produce changes in the interstate rate base . . . they would also alter the interstate allocations of exogenous cost changes reflected in the LECs' 1992-95 price cap indices."[16] For SWBT, however, these impacts do not exist for the following reasons.

Exogenous cost changes associated with SPF, DEM, RDA and general support facilities (GSF) were flowed through prior to the RAO 20 adjustments being booked. Consequently, the RAO 20 reversal could not cause changes to these exogenous amounts. Specifically, these exogenous changes were completed using the 1992 base period data. SWBT did not begin booking SFAS 106 amounts until 1993.

Exogenous cost adjustments for Investment Tax Credits (ITC) and Excess Deferred Income Taxes (EDIT) were made during the time periods when SFAS 106 amounts were booked.

[16]AT&T at fn. 19.

Since the ITC exogenous cost adjustment has no rate base component, the Rescission Order has no impact on it. Rate base impacts associated with EDIT are also not affected by RAO 20. The only rate base impact included in the EDIT exogenous cost calculation is associated with Account 4340, Net Non-Current Deferred Operating Income Taxes. The RAO 20 reversal is associated with Account 1410, Other Non-Current Assets and Account 4310, Other Long-Term Liabilities. Therefore, the RAO 20 reversal does not change exogenous cost amounts associated with EDIT.

C. SWBT Has No Obligation To Provide Further Supporting Material Or Explanation.

Sprint claims that SWBT has not provided sufficient information to evaluate the reasonableness of the increase to the ratebase.[17] AT&T claims that the LECs must supply information on the data and methods used to develop the amounts for inclusion in their ratebase.[18] The amount of documentation provided in SWBT's filing is greater than that accepted by the Commission as adequate in previous filings. In SWBT's D&J, footnotes to Form 492A show all of the calculations of the sharing exogenous cost adjustments being made.

In previous years, when the OPEB liability was included as a ratebase reduction, no additional documentation was required to substantiate the ratebase adjustment made; likewise, the removal of those same adjustments from the ratebase calculations does not require any further documentation. Since SWBT stands ready to provide the Commission with any reasonable

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[17]Sprint at pp. 3-5.

[18]AT&T at p. 7. AT&T estimated that the 1994 sharing reduction for all LECs was $85.06M (page 3). This estimate includes an inaccurate claimed reduction of $13.051M for SWBT (See AT&T Appendix B-2, page 1 of 3). SWBT clearly documented in its Description and Justification (D&J) (Section 2-F and Form 492 footnotes) that the 1994 sharing adjustment was $11,841,864. To the extent that AT&T overstated other LECs' adjustments, AT&T's total $85M estimate may be grossly overstated.

information requirements, neither Sprint's nor AT&T's claim can form the basis for rejection or suspension of SWBT's filing.

D. SWBT Need Not Await The New Rules Regarding RAO 20.

Sprint claims that since the Commission is likely to adopt new rules reinstituting the original RAO 20 accounting treatment, the RAO 20 reversal adjustments should not be made until the Commission's decision is issued.[19]

In any event, the adjustments should not be delayed since SWBT (and Sprint) have an obligation to obey the Commission's rules as they stand, not as Sprint would like them to be. Thus, Sprint's suggestion that the adjustments be delayed must be rejected. Even if the rule is changed, the rule change would only affect future filings. Thus, the 1993, 1994 and 1995 adjustments could not be affected.

II. SWBT'S ADD-BACK CALCULATIONS ARE CORRECT.

AT&T and MCI claim that SWBT's add-back calculations are incorrect as seven-twelfths of the calculation is based on 1994 earnings, and only five-twelfths on 1995 earnings.[20] Each of these parties claim that the add-back adjustment should have been based on one-half of 1994 sharing and one-half of 1995 sharing. However, MCI completely fails to note that SWBT also included an additional amount equal to five-twelfths of one-eleventh of the difference between the 1994 and 1995 sharing amounts. AT&T recognizes this additional amount as "an additional true-up adjustment" at the very end of its comments on this issue, but fails to acknowledge its effect.

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[19]Sprint at pp. 3-5.

[20]AT&T at pp. 11-14; MCI at pp. 7-8.

SWBT's methodology (with this "true-up" adjustment) accurately measures the add-back amount for 1995. Assuming the legitimacy of add-back, one must then determine the definition and purpose of add-back. As clearly indicated in the 1996 TRP Order, "the add-back adjustment adds a dollar amount equal to the shared revenue to the carrier's rate of return before calculating its next sharing obligation."[21] Add-back is a hypothetical revenue amount which when added to actual booked revenue for a particular measurement period equals the revenue that would have been booked during the measurement period if the sharing adjustments actually in effect and reflected in rates during this measurement period had not existed.

AT&T wrongly asserts that paragraph 25 of the 1996 TRP Order mandates the use of six months of 1994 sharing and six months of 1995 sharing to calculate add-back. Paragraph 25 only addresses the calculation of sharing and sharing benchmarks after the 1995 earnings have been calculated. It offers no instruction for the computation of add-back. AT&T recognizes that the 1995 Annual Filing was not effective until August 1, 1995, that the 1994 Annual Filing PCIs (and 1994 sharing) remained in effect for seven months and that a one-time PCI adjustment was required to account for the one month delay.[22] MCI states, "The Bureau-ordered 1/11th adjustment . . . affected all PCI adjustments, including sharing obligations."[23] Therefore, an accurate calculation of the revenue shared during calendar year 1995 (i.e., add-back) must reflect seven months of 1994 sharing, five months of 1995 sharing and an additional amount equal to five months of the one-eleventh PCI adjustment effect associated with the sharing exogenous cost. This one-eleventh PCI

[21] 1996 TRP Order, para. 14.

[22] AT&T at p. 12.

[23] MCI at p. 8. (emphasis added)

adjustment reflects one-eleventh of the change in PCIs which is identical to one-eleventh of the change in each component of the PCIs. Since sharing is one of the components of the PCIs, it is proper to add five months of one-eleventh of the difference between the 1994 and 1995 sharing amounts, as SWBT's methodology does. AT&T and MCI fail to recognize that although the one-eleventh PCI adjustment ensured that the revenue effect over the eleven month tariff period would be similar to the revenue effect over a twelve month tariff period, it did not result in an identical 1995 calendar year revenue effect. Use of six months of 1994 sharing and six months of 1995 sharing to calculate add-back would clearly be improper in this situation.

SWBT's methodology contains no inherent bias toward a lower add-back calculation, but simply reflects the actual sharing amounts that were in effect regardless of the relationship between 1994 and 1995 sharing. AT&T's and MCI's six-month methodology may be simpler to calculate, but it is unsupported and results in an erroneous add-back calculation.

III. SWBT HAS CORRECTLY CALCULATED THE EXOGENOUS COST INCREASES ASSOCIATED WITH REVERSAL OF SHARING.

Sprint claims that SWBT has included exogenous cost increases for the reversal of sharing which do not accurately reflect the change in revenues.[24] Sprint's claim is incorrect.

As in previous years, SWBT correctly calculated the sharing reversal on the basis of the change in 'R' value for each basket.[25] On the contrary, Sprint erroneously calculated SWBT's

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[24]Sprint at pp. 5-6.

[25]SWBT D&J, Section 2F, page 2-11.

1994 sharing reversal exogenous cost on the basis of the change in 'R' value for all baskets combined.[26]

The method used by SWBT has been accepted by the Commission in all previous price cap filings. There is nothing in the 1996 TRP Order instructions (footnote 23) that indicates that the 'R' value for all baskets should be combined for this calculation. Instead, the sharing reversal is calculated by individual basket since the objective of the reversal is to return the PCIs to their pre-sharing values. Since sharing is reflected as an exogenous cost separately by basket and affects PCIs on an individual basket basis, using a total 'R' value change, rather than individual basket 'R' value changes, would not properly return the PCIs to their pre-sharing values.

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[26] Sprint's own affiliated local exchange companies also calculated the 'R' value change by basket. See Sprint LTC Transmittal No. 9, D&J, Workpaper RDEV-1, page 4 of 9.

IV. CONCLUSION

For the foregoing reasons, SWBT respectfully requests that the petitions filed against its 1996 Annual Access Charge Tariff Filing be rejected, and that SWBT's Transmittal be allowed to take effect as scheduled.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By ______________________

Robert M. Lynch
Durward D. Dupre
Thomas A. Pajda

Attorneys for
Southwestern Bell Telephone Company

One Bell Center, Room 3520
St. Louis, Missouri 63101
(314) 235-2507

May 13, 1996

CERTIFICATE OF SERVICE

I, Liz Jensen, hereby certify that the foregoing Reply Comments of Southwestern Bell Telephone Company, In the Matter of 1996 Annual Access Charge Tariff Filings, have been served this 13th day of May, 1996 to the Parties of Record.

Liz Jensen

Liz Jensen

May 13, 1996

INTERNATIONAL TRANSCRIPTION
SERVICES INC
1919 M STREET N W RM 246
WASHINGTON DC 20554

MARK C ROSENBLUM
PETER H JACOBY
SETH GROSS
JUDY SELLO
AT&T CORP
ROOM 3244J1
295 NORTH MAPLE AVENUE
BASKING RIDGE NJ 07920

DON SUSSMAN
REGULATORY ANALYST
MCI TELECOMMUNICATIONS CORPORATION
1801 PENNSYLVANIA AVENUE NW
WASHINGTON DC 20006

LEON M KESTENBAUM
NORINA T MOY
SPRINT COMMUNICATIONS COMPANY LP
1850 M ST NW STE 1110
WASHINGTON DC 20036

JAMES SCHLICHTING
CHIEF COMPETITIVE PRICING
DIVISION ROOM 518
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET NW
WASHINGTON DC 20554

REGINA M KEENEY
CHIEF COMMON CARRIER BUREAU
FEDERAL COMMUNICATIONS COMMISSION
ROOM 500
1919 M STREET NW
WASHINGTON DC 20554